

JPRS-CAR-94-016  
10 March 1994



# ***JPRS Report***

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# **China**

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JPRS-CAR-94-016

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10 March 1994

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**Xu Jiatun's Memoirs on Xu Haining Incident**  
**94CM0149A Hong Kong LIEN HO PAO in Chinese**  
**10 Sep 93**

[Installment No 129 of the serialized memoirs of Xu Jiatun: "Xu Jiatun's Hong Kong Memoirs"]

**[Text] Continuous Incidents (Part Three of Four)—The Xu Haining Incident**

A number of incidents between China and Britain also occurred at the time, one being the Xu Haining [1776 3189 1337] incident, and another the Yang Yang [2799 3152] affair.

As stated above, Xu Haining played a frequent role in Hong Kong's public activities during the 4 June period, holding up a banner with the words "NEW CHINA NEWS AGENCY Branch" at the million-person demonstration rally on 21 April 1989, as well as giving a speech in his capacity as an employee of a NEW CHINA NEWS AGENCY [NCNA] branch at a race track mass rally, which was reported widely in the media, making him for a time the man of the hour in Hong Kong. After these incidents occurred, while I kept Zheng Hua [6774 5478] [deputy director of the Hong Kong Office of the NCNA] from investigating them, Xu Haining was very nervous about them, so left the Hong Kong Office of the NCNA and went into hiding. As we were concerned that he might flee abroad, we sent someone to find him. The one who found him reported that he was staying at a friend's home, being somewhat panic-stricken and distraught. While our messenger told him that he would have no problems if he returned to the NCNA, he did not believe this and was not ready to return. But before long, he returned on his own, after which not only did we not reproach him, but, in an attempt to calm him down, I even sent the leader of the concerned department to console him.

But after a few days, he again ran away on the sly. We very quickly heard that he had been taken to London by the British Hong Kong government. We immediately reported this to Beijing, which immediately told us to negotiate with the British Hong Kong government for Xu Haining's return. But as the British Hong Kong government claimed to have no knowledge of him, the matter was "suspended" (shelved).

At the time, a concerned NCNA branch department discovered that many employees of Chinese agencies were lined up at certain foreign consulates to apply for emigration. And certain other employees of Chinese agencies were saying privately that they would not be transferred back to China and, if they were, they certainly would not go, being ready when necessary to go abroad. As we were already somewhat prepared psychologically for this, having guessed that Hong Kong's

Chinese agencies might lose some people, we did not treat the Xu Haining matter as a crucial one, so that we took it up with the British Hong Kong government only to make them think twice.

Before long, the Chinese Embassy in London telegraphed the Ministry of Foreign Affairs and the Hong Kong and Macao Working Committee that Xu Haining had fled on his own to the Chinese Embassy in Britain, and was asking to be returned home. Xu Haining claimed that it was the British Hong government that had sent someone to escort him to London, after which he was settled by a refugee agency, which gave him 70 pounds sterling a day. While there was also someone to accompany him on a tour of London for the first few days, no one paid him any attention later, leaving him feeling helpless, so that he fled to the embassy to ask to be returned home. So the embassy telegraphed the Ministry of Foreign Affairs and the Hong Kong and Macao Working Committee for instructions on how to handle the matter.

After exchanging views with the State Council Hong Kong and Macao Affairs Office and the Ministry of Foreign Affairs, we telegraphed our embassy in London that we wanted Xu Haining returned to China. But the embassy then telegraphed us that Xu Haining had fled again, and could not be found. It turned out that the British had learned of Xu Haining's contacts with the Chinese Embassy, so had moved him elsewhere.

A few days later, Xu Haining again ran to our embassy, which retained him this time, negotiating with the British Government for his return home, and buying him a plane ticket. But the British Government asked to send someone to talk with Xu Haining, which request was refused by the Chinese Embassy, which agreed only to allow the British to send someone to question him at the airport in the company of [Chinese] Embassy personnel. It was learned that the British asked Xu Haining only if returning home was his own wish, to which he replied that it was. Which was how he left Britain and was returned to China.

Beijing's view was that the Hong Kong and Macao Working Committee should handle the matter. So we decided to let him return first to Guangzhou to recuperate at our Guangzhou #3 Office Guest House, where we assigned someone to give him some work to do to calm him down. But as the Hong Kong media was looking for him everywhere, and Xu Haining was from Hangzhou, we contacted the Zhejiang Provincial Party Committee, sent him to Hangzhou, and asked Zhejiang Province to arrange for a place to let him recuperate. We considered Xu Haining in his state no longer suitable for return to work in Hong Kong, so asked the Zhejiang Provincial Party Committee to let him stay in Zhejiang and to find other work for him.

**Xu Jiatun's Memoirs on Yang Yang Affair**  
**94CM0149B Hong Kong LIEN HO PAO in Chinese**  
**11 Sep 93**

[Installment No 130 of the serialized memoirs of Xu Jiatun: "Xu Jiatun's Hong Kong Memoirs"]

**[Text] Continuous Incidents (Part Four of Four)—The Yang Yang Affair**

[Text] The Yang Yang affair also occurred during the same period. Yang Yang was a Beijing swimmer who had overstayed a tour of Hong Kong and not returned, and who publicly claimed that he feared persecution if he returned to China, so was asking for political asylum. While I at first thought that he was the Jiangsu badminton player of the same name, I later heard that he was a Beijing athlete, so sent someone to find out and make inquiries in Beijing, finding that Yang Yang would certainly not be persecuted, but simply did not want to go home. Our investigation showed that while the British Hong Kong government had not yet made contact with Yang Yang at the time, a Taiwanese party had, and the Taiwanese authorities had expressed a willingness to take him in. As we were quite concerned that he might go to Taiwan, we sent someone to work with him, in hopes that he would return to China. Ji Shaoxiang [4764 4801 4382], our NCNA branch's Foreign Affairs Department director, reported directly to us that the British Hong Kong government had said that as long as we issued a statement to guarantee that Yang Yang would not be persecuted after he returned to mainland China, they would send Yang Yang, who they had in custody, back to China according to the practice for dealing with those who overstay visits.

I replied that this was possible and, after obtaining Beijing's consent, issued the statement, the gist of which was that mainland residents left behind in Hong Kong around the time of the 4 June incident, regardless of whether they had taken part in any political activities, would without exception not be investigated after they returned to the mainland.

But after the statement was issued, the U.S. consulate general still gave Yang Yang a visa allowing him to go to the U.S. When the Ministry of Foreign Affairs learned of this, it immediately took it up with the British Hong Kong government, which claimed that the person had already left, so was "powerless" in the matter. How could we continue in the future to work with such an untrustworthy British Hong Kong approach? And when Ji Shaoxiang took it up with a [British Hong Kong] political advisor, he was offered only regrets.

So Beijing's Hong Kong and Macao Affairs Office, Ministry of Foreign Affairs, and NCNA consulted on how to curb the British Hong Kong government's untrustworthy approach, demanding a test of strength with Britain. As every day brought mainlanders fleeing illegally to Hong Kong, and both China and Britain had agreed that those seized by the Hong Kong government's

border guards would be repatriated immediately on the same day they were caught, we decided that unless we obtained a better promise from Britain on this matter, we would refuse to accept the repatriates. When British Hong Kong missed the point of our negotiations, we began to refuse to accept repatriates on our border, which brought a very strong response in Hong Kong society. As I considered at the time that allowing this to drag on for long would be adverse to winning over public support, I asked Pao Yu-kang [0545 3768 0474] to go and see the Hong Kong governor, to tell him that the hard line being taken by Beijing was Deng Xiaoping's idea, not a decision taken by subordinates. I also asked Pao Yu-kang to tell the Hong Kong governor that to resolve the Yang Yang incident, we were only asking the Hong Kong government to promise again that such incidents would not occur again in the future. Meanwhile, Ji Shaoxiang also made the same request to political advisors.

But after Pao Yu-kang had disclosed this news to the Hong Kong government, there was no response. So I specially sought out Chia Tao-li [0857 6670 3810], asking him to use his influence to once again convey this information to the British Hong Kong government. A day later, Chia Tao-li told me that "as to the matter that you asked me to take care of, I have done it, and now we have to wait for the response." Sure enough, a Hong Kong government political advisor gave Ji Shaoxiang a verbal promise, after which we felt that the affair was over. When someone in the media asked about it, we announced the British Hong Kong promise. But then the political advisor denied it, forcing a clarification. Finally, the Hong Kong government published on the front page of the 26 October 1989 edition of NAN-HUA TSAO-PAO [SOUTHERN CHINA MORNING NEWS] their promise, stating that the Hong Kong government would not allow Hong Kong to be used as a base for activities designed to overthrow the PRC, ..... [LIEN HO PAO ellipsis], and that the Hong Kong government would continue to carefully consider matters and interests of concern to Hong Kong's special conditions and the Chinese Government.

On 23 October 1989, after the Hong Kong government's private verbal promise, we stopped refusing to accept repatriates. Throughout the whole affair, Guangdong Province was very supportive, with Guangdong's border guards acting in very fine coordination.

**Xu Jiatun's Memoirs on Stationing of Troops**  
**94CM0149C Hong Kong LIEN HO PAO in Chinese**  
**12 Sep 93**

[Installment No 131 of the serialized memoirs of Xu Jiatun: "Xu Jiatun's Hong Kong Memoirs"]

**[Text] Another Controversy Over the Stationing of Troops—Ch'u Heng's Statement on Picking Up the**

**Pieces' Sets Off a Chinese Counterattack Over the Stationing of a Special British Military Reconnaissance Unit at the T'ien-Ma Naval Base**

The deterioration in Sino-British relations was also glaringly evident in the hard-line and offensive approach taken by Britain in the drafting of the Basic Law, causing further tension in bilateral relations.

On 14 August 1989, Ch'u Heng [1448 3801], a standing officer of the British Hong Kong Government, made a statement entitled, "Picking Up the Pieces," saying that as the 4 June incident had been a blow to Hongkongers' confidence, he would like Hongkongers to study the matter of the stationing of Chinese troops after 1997, as well as the clause in the Basic Law draft on any declaration that the SAR had entered a state of emergency, going on to propose that he hoped that the Chinese authorities would delay publication of the Basic Law.

Some Hongkongers had already been concerned about the stationing of Chinese troops in Hong Kong. During the negotiations over the Sino-British Joint Declaration, Deng Xiaoping had criticized Geng Biao's [5105 7374] [former NPC Standing Committee vice chairman and NPC Foreign Affairs Committee chairman] statement that troops would not be stationed in Hong Kong as nonsense, touching off repercussions. As Beijing's use of troops on 4 June to crush a patriotic student movement was an even greater shock to Hongkongers, Ch'u Heng's drawing attention to this matter again was an obvious political attempt.

Ch'u Heng's statement on "picking up the pieces" in an attack on China was obviously not his personal doing. After we had studied it and, in line with the spirit set by Beijing, we decided to respond, as well as reporting to Beijing for the record.

So on 18 August 1989, we reviewed Ch'u Heng's statement in our capacity as an NCNA branch as "brazen interference in the drafting of the Basic Law," as well as issuing a special statement in the Hong Kong WEN WEI PO, pointing out that Ch'u Heng's action violated elementary diplomatic common sense. Beijing also responded the next day, with a Foreign Ministry spokesman stating that the drafting and formulation of the Basic Law was Chinese business that would brook no interference, as well as emphasizing that "the recent brazen and flagrant criticism and gross interference in the drafting of the Basic Law by certain British officials, such as standing officers of the British Hong Kong Government, was a violation of the Sino-British Joint Declaration provisions, and that the absurd position that China must not station troops in Hong Kong" had raised the matter to a British violation of the Sino-British Joint Declaration.

The stationing of troops was a hotly-debated issue in the drafting of the Basic Law. The unresolved controversy also involved matters of Hong Kong's T'ien-Ma Naval Base, and the three British military headquarters in

Hong Kong which, at the time, Britain seemed to still find it inconvenient to mention openly.

The British military was stationed in Hong Kong at the time at over 20 sites, spread throughout the New Territories, Kowloon, and Hong Kong island. According to the plan submitted by Britain to China, when the British military withdrew in 1997, it would turn over one part of these 20-plus military camps to China, mainly the military bases in the border zones, such as the New Territories, and another part to the SAR Government for use by departments, such as disciplinary troops (police), with an additional part in the Central District being converted to commercial use, with this part including sites, such as the T'ien-Ma Naval Base and the Wotalaotao Barracks.

The T'ien-Ma Naval Base was the general headquarters of the British Navy, army, and air forces stationed in Hong Kong. We understood that the T'ien-Ma Naval Base not only was the British military's general headquarters, but also had a special department, with many modern reconnaissance tools and equipment possibly concentrated there. It was rumored that the British Government had thought about converting it after 1997 to a general consulate, and was dropping hints as feelers, about which China also dropped some hints that it would not endorse. It was also rumored that Britain was planning to demolish the T'ien-Ma Naval Station. But it was later rumored that the naval base would be moved to a small island, with its original site filled in for commercial use. (Britain has now unilaterally moved the naval base to Ang-ch'uan Chou, as well as unilaterally publicizing that it will turn over the three military headquarters at the T'ien-Ma Naval Base to China in 1997.)

The Chinese military affairs sector had set up a special small group composed mostly of its Headquarters General Staff which, based on British-provided data and with the approval and cooperation of the British Hong Kong Government, had gone to Hong Kong for an on-site inspection. While the Hong Kong and Macao Working Committee had also discussed this, basically agreeing with Britain's plans, some parties had also dissented, holding mainly that the change to other [commercial] use should be decided by China after 1997. As to whether the Central District's military site should be converted to a commercial zone, there was also a difference of opinion within China, with the military affairs sector being completely receptive, while the Hong Kong and Macao Affairs Office and the Ministry of Foreign Affairs were unwilling to completely accept the decision being made entirely by the military affairs sector... As their exchange of views came to no conclusion, it was hard to take up the matter in detail with Britain.

While Li Hou had asked me in Ji Pengsei's presence to help them respond to Yang Shangkun, asking Yang Shangkun to support their view, I retired before I had a chance to take this up with Yang Shangkun.

**Xu Jiatun's Memoirs on Pace of Direct Elections**  
**94CM0149D Hong Kong LIEN HO PAO in Chinese**  
**13 Sep 93**

[Installment No 132 of the serialized memoirs of Xu Jiatun: "Xu Jiatun's Hong Kong Memoirs"]

**[Text] A Sharpening Political-System Controversy (Part One of Two)—Hongkongers From All Walks of Life Call for a Faster Pace of Direct Elections, With Cha Liang-yung's Mainstream Plan' Being Criticized as Conservative"]**

Once Beijing declared martial law, the drafting of and consultation on the Basic Law essentially stalled. A trip to Hong Kong by the Chinese Drafting Committee delegation, which had been originally scheduled for 22 May 1989, was temporarily postponed due to the sharp change in the Beijing political situation, and Ji Pengfei also cancelled a visit to Hong Kong. Some Hong Kong figures publicly announced that they were quitting their jobs on the Basic Law drafting and advisory committees, with the Seventh Plenary Session of the Advisory Committee, which had originally been scheduled for 3 June, also declared postponed due to the situation in both Beijing and Hong Kong.

The sound of gunfire in Beijing on 4 June left Hongkongers feeling even more in the same sort of danger. Would Hong Kong be able to preserve its capitalist system for 50 years unchanged after 1997? Would China make good on its promises to practice one country, two systems, and to allow Hong Kong to be ruled by Hongkongers? And would there still be any democracy or freedom? Hongkongers questioned all of this. So with a mind to obtain more safeguards for after 1997, Hongkongers made new demands concerning the substance of the Basic Law, particularly the political system's democratic processes, thus sharpening the controversy over the political-system plans.

The radical democracy-faction forces expanded unprecedentedly due to the 4 June incident, also exploiting the widespread acceptance among Hongkongers of "using democracy to resist and restrict communism," and calling for the Basic Law to be renegotiated and redebated, with some even shouting the slogan: "Down With the Basic Law altogether."

The political-system plans put forth by all social strata and factions, including the moderates (and even some left factions), all called for a faster pace of democracy, or direct elections.

Before describing the calls and new positions and plans put forth by all sides to speed up the pace of democracy, it is necessary to return to certain conditions of the "mainstream" plan that resulted from soliciting advice on the drafting of the Basic Law. This is because almost all of the later plans for speeding up the pace [of democracy] were directed at this "conservative" plan.

Returning to 1989, the consultations on the drafting of the Basic Law resulted in a "dual-Cha plan," which was the product of and based on the "mainstream" plan of Drafting Committee member Cha Liang-yung [2686 5328 6978].

At the end of 1988, prior to a meeting of the Drafting Committees' Special Political-System Group in Guangzhou, I was resting one Sunday in November at the Beiling Residence in Shenzhen, when Cha Liang-yung, one of the conveners of the Drafting Committee's Special Group, sought me out. I invited him to the Beiling Residence, asking him in passing to taste the Huaiyang food of our famous cook who had recently arrived from Yangzhou.

After we met, Cha Liang-yung briefed me on his political-system plans, such as for the Chief Executive to be produced through a general election group form, and for the Legislative Council [LEGCO] members to be produced through a proportional distribution of general elections and other forms. His most important position was to begin "examining" the full implementation of general elections for Chief Executive and LEGCO members for the Fourth [executive and legislative] Session, i.e., for 15 years after 1997, with certain procedures (such as majority approval by LEGCO or voting by the whole people) being used to determine whether to fully practice general elections for LEGCO members and the Chief Executive.

While I certainly did not object to choice through general election and proportional production of legislators, I held that "examining" this for the Fourth Session was a little too early, suggesting that it might be pushed back a session or two. I considered at the time that as it was hard to guess how the situation might develop, with the pace of democracy unable to be completely determined by man-made means, the "legislative" timetable ought to give a little more attention to the "security" factor. If conditions ripened sooner, the "legislation" could be amended, with the "examination" also occurring earlier.

He explained to me that if conditions were not yet ripe for general elections by the Fourth Session, an "examination" of them might not be approved.

As we had exchanged views, and future variables were numerous, we did not continue the discussion.

At the meeting of the Special Political-System Group in Guangzhou, Cha Liang-yung presented this plan that he had proposed. It was said that he had had another plan, for extending the general elections to 30 years after 1997, which had been leaked too soon and had run into opposition, so had been changed to the current one, for an "examination" of general elections 15 years in advance.

I only half-trusted this version. What I believed was that my view had influenced him, so that after our meeting, he had revised his original plan. But what I distrusted was that my suggestion had been to postpone the matter for one or two sessions, or 5 to 10 years, not 15 years. The "examination" of general elections for the Fifth Session of LEGCO members and the Fourth Session of the Chief Executive was Cha's original stand in our discussion.

But regardless of those facts, Cha Liang-yung's subsequent statement under pressure by reporters in the midst of ever-sharpening debate, that "Xu Jiatun is more conservative than me," was certainly the truth. In our exchange of views, mine were certainly more "conservative" than his.

Cha Liang-yung's plan was revised slightly at the meeting of the Special Group in Guangzhou, being called the "mainstream plan," with much discussion among all parties, and the major criticism being that it was too "conservative."

At the time, as Ji Pengfei had not called a meeting in advance to consolidate the Party's views, I did not know whether Li Hou and Lu Ping had a "bottom line" when they hosted the meeting of the Special Group. And my exchange of views with Cha Liang-yung was also just my own idea, as many other plans were also in existence at the time. So I held that it was a little early to describe Cha Liang-yung's plan as "mainstream."

So when I later asked Mao Junnian [3029 6874 1628] [deputy director of the Hong Kong Office of the NCNA], who had attended the meeting, why Cha's plan was called the "mainstream" one, he replied that "this was the majority view of the group."

**Xu Jiatun's Memoirs on Two Ch'a Plan**  
94CM0150A Hong Kong LIEN HO PAO in Chinese  
14 Sep 93

[Installment No 133 of the serialized memoirs of Xu Jiatun: "Xu Jiatun's Hong Kong Memoirs"]

**[Text] Sharpening Political System Controversies (Part Two of Two)—The Drafting Committee Passes the Two Ch'a [Ch'a Chi-ming and Cha Liang-yung] Plan, for Which Lu Ping and Li Hou Claim Not To Have Cast Supporting Votes**

Two months later, the [Basic Law] Drafting Committee met in full session at the Huayuan Hotel in Guangzhou, with its theme being to examine and vote on all drafts of the Special Group, in preparation for the Second Advisory Draft of the Basic Law. It was decided at this meeting that, in addition to voting one by one on the terms proposed by the Special Group, the Drafting Committee would first obtain the stipulated number of joint signatures, and then might set forth additional draft resolutions beyond the Special Group's drafts.

Prior to this meeting, I had suggested to Ji Pengfei the possibility of holding a meeting of the Drafting Committee's party members, to reach a party consensus. Ji Pengfei had barely heard my suggestion when he told Li Hou and Lu Ping to individually "notify" the Drafting Committee's party members.

The balloting showed an unexpected result, in that Cha Chi-min's [2686 3444 3046] motion was passed. Cha Chi-min's plan added four terms to Cha Liang-yung's

plan for "examining" procedures for general elections by the whole people for the Fourth Session of the Chief Executive and the Fifth Session of LEGCO. These four terms were: 1) it must be approved by the majority of the legislators; 2) it must be endorsed by the Chief Executive; 3) it must be approved by the NPC; 4) it must be endorsed by a vote of over 30 percent of qualified voters.

While Cha Chi-min's motion had certainly not aroused attention in advance, it was close in thinking to that of certain Drafting Committee members on the mainland and in the Hong Kong superstructure at the time, so that its passage was not unexpected. But when the public controversy over Cha Liang-yung's plan arose, with many holding it to be too "conservative," the two "Cha" plans were combined, turning out to be even more "conservative," which was certainly not expected by the Chinese leadership.

After the Cha plan was passed, Lu Ping told Li Chu-ming [2621 2629 6900] that he had not guessed that Cha Chi-min's revised plan could win the two-thirds support, and that he had not voted in support of it. Li Hou also told reporters that he had abstained from voting.

At this plenary session of the drafting committee, certain proposals of the special group were not approved, such as the motion on the SAR Government's fiscal policy, which did not win a two-thirds vote of the committee members in attendance, so was returned to the special group for redeliberation, and the proposals by committee members, such as T'an Yao-tsung [6223 5069 1350], on labor welfare, which were also not passed.

It was guessed that the fiscal policy motion failed because it was voted against not only by several Hong Kong Drafting Committee members with close connections to the British Hong Kong government, but also by mainland committee members. The original plan of this draft had shown concern that the British Hong Kong government, in its 12 years of rule before its withdrawal, might change its past fiscal policy, by changing its tax rates and overreaching itself to build more public facilities, which would add more profitable construction-contract opportunities for British firms, while putting a heavier burden on Hongkongers. While the Basic Law could not interfere in fiscal policy during the British Hong Kong administration's tenure, it could still have a political impact to restrict it somewhat.

As to this provision, not only had the British Government called for its revision more than once through diplomatic means, but certain drafting committee members from Hong Kong with close connections to the British Hong Kong government had also repeatedly proposed amendments to it in special group meetings. Certain mainland drafting committee members also dissented with it, their main concern being that it would tie the future SAR government's "hands," keeping them from acting in line with future realities. So while its failure was unexpected, it was also understandable.

But the failure to pass of the labor welfare motion was very hard to understand. As the Hong Kong Drafting Committee members were weighted toward industrial and business circles, their votes against it were understandable. But as the mainland drafting committee members were mostly Communist Party members, their voting not in favor of it, but rather against it or abstaining, was unexpected.

The substance of this motion was the right of Hong Kong workers to strike, as well as matters such as collective bargaining between labor and capital, and the establishment of a central accumulation fund. As the PRC Constitution did not have a provision on strikes, some advocated that Hong Kong should not either. But I supported the "left faction" labor union view, advocating that the Basic Law should list the right of Hong Kong workers to strike.

Prior to this plenary session of the drafting committee, I had discussed the matter with Ji Pengfei, noting that Hong Kong was a capitalist world where strikes were a very important weapon in struggles between labor and capital. While strikes are a method of last resort that should not be applied lightly, we should not deprive workers of this important right.

Collective bargaining is also very important, as it is the only way to enable workers to rely on their united strength to obtain successful terms in negotiations with capital. Moreover, as most Hong Kong workers were not organized, with "left," "center," and "right" labor unions decentralizing working class unity, collective bargaining laws and regulations as grounds for negotiating with capital could relatively increase organizational might. Of course, in resolving labor-capital disputes, it is also necessary to adhere to the principle of [protecting] the rights of both labor and capital, by not overdoing things.

As Hong Kong's labor welfare was insubstantial, with no retirement safeguards, the central accumulation fund was a legitimate demand for resolving the matter, so that we should have supported it in principle. While a central accumulation fund would certainly be hard to implement, it could be accomplished through flexible means. Unless the Basic Law included this principle, it would be impossible to safeguard workers' elementary rights, with the decreased worker support for the Basic Law being unfavorable to Hong Kong's social stability and prosperity. While Ji Pengfei had endorsed all of this at the time, the motion still was not approved.

After this meeting, Ji Pengfei called a meeting of the party's directors, deputy directors, secretaries, and deputy secretaries to discuss the meeting, where all were essentially satisfied with the outcome of the balloting, as most of the motions that should have passed did, while the ones that we hoped would not basically did not. While Cha Chi-min's bill was unexpected, it was certainly not the final plan, so could still be amended through certain procedures. As to the fiscal policy, Li Hou and others took the initiative to suggest striving to amend certain words, and then asking for another vote. As to the labor welfare proposal, I asked Ji Pengfei, Li Hou and others to work on persuading mainland committee members to support it in future voting, especially emphasizing that "the Basic Law must not disappoint Hong Kong workers," which Ji Pengfei agreed to.

But after the 4 June incident, at the final Plenary Session of the Drafting Committee, when the Basic Law draft was voted on, the item on "collective bargaining" was still not adopted. As I had already been declared retired and transferred back to the mainland at the time, I was no longer taking part in the internal meetings on Hong Kong and Macao hosted by the Hong Kong and Macao Affairs Office, so had no way of knowing really why this item was not adopted.

## NATIONAL AFFAIRS, POLICY

### Liu Guoguang on Effects of Macroeconomic Control

94CE0245A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese 23 Nov 93 pp 17-19

[Article by Qin Shaoxiang (4440 1421 4161): "The Old Structure Cannot Drive the 'High Speed Vehicle'—Noted Economist Professor Liu Guoguang Discusses Reform and Development"]

[Text] *To solve the problem of deep conflicts in China's current economic life, we must perfect and strengthen macroeconomic regulation and control and carry out comprehensive in depth reforms. In a society with rapid economic growth and tight economic relationships, we must enhance the strength of reform. We must not cease development to work on reform. Without effective macroeconomic regulation and control, there will not be a mature market economy.*

Since the latter half of last year, the Chinese economy has exhibited the "three high" phenomena—a high economic growth rate, high investment growth rate, and high commodity price increase rate. In light of the conflicts and problems occurring in China's economic life, the central government assessed the situation and made some timely policy decisions on macroeconomic regulation and control. How are the prospects and effectiveness of the strengthened macroeconomic regulations and controls? How should the current and future conflicts and problems in China's economic life be resolved? With these questions in mind, this reporter visited famous economist and National People's Congress Member Professor Liu Guoguang in October.

### The Prospects for Macroeconomic Regulation and Control Look Good; Inflation Warrants Alarm

Liu Guoguang believes that the series of macroeconomic regulations and controls adopted by the central government to resolve previously existing and newly occurring problems in China's economic life will soon show results. The excessively high production rate fell for three straight months in July, August, and September. In September, it fell to 19.1 percent. The market peaks are tending towards stabilization, the finance situation has improved, and the rate of funding available for major construction has increased from 19 percent at the end of June to 70 percent. There have been no "IOUs" issued for the purchase of farm products, personal savings have increased again, the revenue growth rate has risen, and exports have grown. These achievements have gradually alleviated some people's anxieties. A growing number of people have come to understand that macroeconomic regulation and control is not overall retrenchment but the reality of structural readjustment.

This set of macroeconomic regulations and controls has been called a "soft attack." It mainly uses economic

methods to scale back in a planned way the excessive investment which overloaded the national ability, as well as to rectify the chaotic finance order, suppress serious inflation, and resolve the conflicts and problems of the process of rapid economic growth. It does this while avoiding the great economic losses of applying "emergency brakes." Liu Guoguang feels that the establishment of a socialist market economy requires effective macroeconomic regulation and control. Becoming a market economy does not mean a completely free, laissez-faire approach. Without effective macroeconomic regulation and control, there cannot be a mature market economy. He said that even in a normal market economy, the government has to intervene in markets which have deficiencies. This is even more true for China during a period of structural transition, when some unpredictable problems will undoubtedly occur. It appears that there are many vacuums during this process of transition, and these would not exist during the original accumulation phase in the early development of market economies. At that time, the problems of a planned economy making a transition to a market economy did not exist. If a laissez-faire approach were used now, allowing the market to function spontaneously, the problems would be even more severe. Liu Guoguang said the main purpose of macroeconomic regulation and control is to use economic methods to solve the conflicts and problems in the process of rapid economic growth and thus create an atmosphere conducive to reform.

Many people still have doubts about whether macroeconomic regulation and control will work and whether the "soft attack" will succeed. Liu Guoguang's view on the prospects for macroeconomic regulation and control is that the first possibility is that the various measures of macroeconomic regulation and control will work quickly and be manipulated with an appropriate degree of tightness and suitable timing. Thus, the economy would be able to maintain a certain vitality and appropriate growth rate but also avoid the serious consequences of exacerbated inflation. In this way, the annual GNP growth rate for this year would reach 13 to 13.5 percent and next year's GNP growth rate would fall to about 10 percent. Inflation would be kept below two figures. The second possibility is that fear of excessively rapid commodity price increases will cause continued retrenchment, resulting in economic shrinkage and the prevention of economic restructuring. This would make it impossible to implement several major reform measures due to a restrictive environment. The third possibility is that excessive relaxation in confused reaction to the finance shortfall will result in the premature abandonment of macroeconomic regulations and controls which were just beginning to be effective and thus cause even more severe economic overheating and inflation. Liu Guoguang emphasized that the latter two scenarios must be avoided. He said this set of macroeconomic regulation and control measures can achieve the first scenario predicted because the problems were recognized early and the measures adopted were effective and timely. In

looking at the current situation, however, the progress on inflation may regress due to the need to maintain a certain economic growth rate in support of production.

Liu Guoguang predicts that if there are no sudden developments, there will not be a repeat of 1988's panic buying sprees, but the danger of inflation cannot be ignored. He said that the retail price index last year rose 5.4 percent but in 35 large and middle-sized cities it rose 10.9 percent. The increase in currency circulation this year pushed prices higher. The June retail price index in 35 large and middle-sized cities rose more than 20 percent. The accumulated inflationary pressure over the past few years has begun to take effect. Experience proves that when measures are not taken to curtail inflation over two digits, the inflation will be exacerbated. When it is over 10 percent, all groups in society will take steps to protect themselves. Macroeconomic regulation and control is an art. If it is done well, there is a certain pace and relatively stable inflation. He said that as long as the real income growth rate of fixed income earners is greater than the rate of inflation, and actual savings interests rates are appropriate, it will guarantee that labor accumulation will not be reduced to naught after inflation. Under these conditions, he would not oppose the use of mild inflation to stimulate economic growth. Negative interest rates, however, must not be used to support the development of inefficient industries.

Liu Guoguang emphasized that during the structural transition period, effective macroeconomic regulation and control can create an environment conducive to reform. But care must be taken that the macroeconomic regulation and control uses reform methods and economic techniques as much as possible. Administrative techniques should not be used to intervene in problems which can be solved with market mechanisms or indirect control techniques. Practice has proven that the old structure cannot carry out sustained rapid economic development and cannot resolve the conflicts and problems which arise amidst rapid movement. We must learn how to strengthen the potency of reform in an environment with rapid economic development and tightly stretched economic relationships. We cannot halt development in order to carry out reform.

#### **Macroeconomic Regulation and Control Continues to Move Forward; Strengthened Reform Is the Basic Approach**

Liu Guoguang feels that the current progress made by macroeconomic regulation and control still falls short of the expectations of society and of the central government, particularly in areas such as guaranteeing agricultural production, raising peasant income, guaranteeing working capital for efficient large and middle-sized enterprises, and centralized funding guarantees for major basic construction projects. These areas still need much work. In essence, one can say that these conflicts and problems have arisen because the defects of the old system have not yet been completely overcome and the

new system is still not completely formed. Therefore, the way to resolve these conflicts and problems is to strengthen reform and establish a socialist market economy structure.

He said that the market has moved towards reform during the last ten years or so and, as we enter the 90's, the reforms have changed in nature so that the task of reform is now to carry out a comprehensive and basic transformation of the entire economic structure to establish a socialist market economy structure. Reform must be extensive in all areas of economic life at both the macroeconomic and microeconomic levels. Therefore, to resolve the deep underlying conflicts and problems in China's current economic life and to perfect macroeconomic regulation and control, we must not delay in pursuing a finance structure, a tax revenue structure, a foreign trade and foreign currency structure, an investment structure, a social guarantee system, a public functionary system and other important reforms.

He said the main thrust of the finance structure reform is to strengthen the regulation and control function of the central bank and to make the People's Bank of China into a true central bank. A policy-making bank must be established to carry out the separation of policy finance and commercial finance, and specialized banks should become true commercial banks. The direction of the tax revenue structure reform is to promote a divided tax system to rationalize the relative distribution between the central government and local governments and reform the distribution of profits between the state and state-owned enterprises. The reform of the investment structure is to divide construction projects into competitive commercial projects, basic production projects and public service projects and also to redetermine funding sources and change funding methods. It should also promote a responsibility system for project managers and reform the initiation and assessment procedures for projects. The thrust of reform in foreign trade is to adopt various measures to conform to GATT standards.

Liu Guoguang emphasized that reform is a complicated piece of systems engineering, and the reforms listed above cannot be accomplished overnight. The attainment of many of the reform goals is not a simple process. The specific implementation of many reforms still requires much detailed research and the identification of specific measures. The most difficult and the most important aspects of establishing a new structure and carrying out various reforms are the reform of state-owned enterprises and the transformation of operation mechanisms. It will be a long process. Enterprise reform still needs to go through pilot project testing and gradual implementation. We cannot promote a corporate system and implement a modern enterprise system all at once. There are also many problems in the process of corporatizing which will require research to solve. Finally, Liu called for the immediate implementation of the "Corporation Law" which stipulates the standards for corporate norms and corporate behavior, to allow the reform of state-owned enterprises to continue to progress. This will provide an underlying foundation for the establishment of a socialist market economic structure.

## FINANCE, BANKING

### PBOC Vice President on Anticorruption Campaign

94CE0250A Beijing ZHONGGUO JINRONG /CHINA FINANCE/ in Chinese No 11, 1 Nov 93 pp 4-6

[Article by Zhou Zhengqing (0719 2973 1987), vice president of People's Bank of China: "PBOC Must Lead AntiCorruption Campaign"]

[Text] A nationwide campaign is currently under way to combat corruption and promote honesty in the party and government in accordance with the policy of the CPC Central Committee. The People's Bank of China [PBOC] should be a leader in this campaign.

Let us assess the current contingent of PBOC cadres and workers honestly. It should be affirmed that most are good. A majority of party members and cadres are incorrupt and law-abiding. Two years after we started "educating, housecleaning, and rectifying" the ranks of PBOC employees and other activities aimed at preventing swindling and theft and ensuring the security of bank funds, in particular, the majority of PBOC cadres have received training and their caliber has definitely improved. The number of economic cases in the PBOC system has also shown a downward trend. The anti-corruption drive and the campaign to improve the party style have been intensified. However, we must also be clear-headed enough to see that some forms of corruption have their own specific social and historical origins that are longstanding and hidden. As society and the economy develop and evolve, moreover, many new problems arise. Thus we cannot expect too much from the earlier round of education, housecleaning, and rectification at the PBOC. Instead we must realize that the task of combating corruption in the PBOC system remains an arduous one. Corruption in all its manifestations exists to various degrees throughout the system, from the headquarters to the branches, with some problems remaining very serious. For one thing, although the number of economic cases overall has dropped, the trend is up for major and serious cases. Second, to further their own special interests, small collectives and individuals do not follow the rules or observe discipline. Using the power in their hands and the convenience afforded them by their jobs, a minority of cadres and workers speculate in real estate, stocks, foreign exchange, and scarce materials with state credit funds. A tiny handful of workers in PBOC-operated economic entities pervert justice for a bribe as a means of lining their pockets. Third, unhealthy trends are still gaining momentum in the industry. Using the power in their hands, some units and individuals continue to wine and dine lavishly, demand payments, impose fees indiscriminately, and raise interest rates covertly. Fourth, ostentation, conspicuous consumption, and pleasure-seeking are all the range. Weak, disorganized, and riddled with bureaucratism, the leading groups of some units treat corruption and other

unhealthy trends within their jurisdictions with indifference. Mismanagement and lax discipline give bad elements many loopholes to exploit.

It should be seen that corruption in the PBOC has a major impact on and constitutes a danger to the banking system. For starters, it undermines the leadership of the central bank and weakens its macroeconomic regulatory and control function. Corruption is bound to interfere with the exercise by the central bank of its macroeconomic regulatory and control function and its execution of the nation's monetary policy from an overall perspective. Second, it has encouraged the rise of unhealthy trends in the banking system. The PBOC is the core of the banking system; every word it utters, every move it makes, sets an example in the system. If the upper beam is not straight, the lower ones will go askant. If there is corruption in the PBOC, how can it patrol the banking system and prevent the spreading of unhealthy trends? Furthermore, corruption in the PBOC system directly hinders banking reform and the deepening of the open policy. Finally, and most serious, corruption in the PBOC has highly adverse social effects, severely damaging the bank's reputation and trustworthiness and affecting the healthy development of the bank's normal business activities. For these reasons, leaders at all levels in the PBOC must fully appreciate the serious consequences of corruption and become even more conscientious about combating corruption. They must develop a greater sense of urgency and be resolved to fight corruption in all its forms unwaveringly.

The anti-corruption campaign is a major event in the drive to intensify party construction and consolidate the regime. Implicit in the four cardinal principles, it is a basic guarantee of the successful execution of reform and the open policy as well as economic development, an objective requirement of the development of a socialist market economy, and an essential condition for implementing the party's basic line across the board and furthering the current favorable situation. Allowing corruption of all forms to spread unchecked is a sure way to ruin our party, our people's regime, and our great socialist modernization enterprise. Banking is a pivotal link of the national economy. Banks are a special industry which deals in the commodity of money. The central bank both discharges the essential responsibility of regulating and controlling the macroeconomy and is the leader and manager of the banking system. Thus the PBOC must be a role model in the anti-corruption campaign in at least three ways. First, it must take a firm stand against corruption. There is absolutely no room for a wait-and-see attitude. Second, it must swiftly take measures to combat corruption. The emphasis should be on practical results and there must be no foot-dragging. Third, corruption cases must be handled seriously and strictly. We must never tolerate and accommodate ourselves to it.

**1. Concentrate Our Energies and Focus On the Priorities. Go All Out To Produce Notable Successes in the Near Future.**

For the moment the PBOC must concentrate its energies on doing a good job in bringing corrupt elements to justice and steadfastly overcoming all sorts of corrupt phenomena, including the reversal of unhealthy trends. It should strive to achieve the following in the near future. First, leading cadres above the departmental level in the PBOC system must demonstrate marked progress in honesty and self-discipline. Second, major cases must be investigated without delay and swindling activities prevented and reduced effectively. Third, a few simple rules must be made to be observed by everybody. The idea is to largely check the unhealthy tendencies of making loans in violation of the rules, raising interest rates without authorization, breaking banking rules and regulations, and failing to enforce the orders. Ideological and political education for the rank-and-file party members and cadres must be intensified to create a corruption-resistant climate without delay.

First of all, step up the supervision and inspection of the efforts by leading cadres at all levels to resist corruption and patrol themselves. People's Bank cadres above the departmental level must carry out in earnest the CPC Central Committee's "five regulations" on how cadres in party and government organs above the departmental level must achieve honesty and practice self-discipline. They should patrol themselves and discipline themselves in accordance with the "five regulations" in light of the reality of work in the banking industry.

Second, it must concentrate its resources on tackling major cases and firmly punish the corrupt. The PBOC must make the investigation of major cases the cornerstone of its anti-corruption campaign and strictly punish corrupt elements. It must double its attention to information provided by the masses in personal visits or letters, encouraging and cherishing their enthusiasm. It must closely analyze and study all complaints brought forward by the public and follow up on all the clues and leads, investigating and verifying them thoroughly. Letters and telephone calls that inform on leading cadres must be reported to the authorities above accurately. Nobody shall conceal or suppress letters and other materials from the masses containing accusations against leading cadres. In checking out the accusations, we must take a seek-truth-from-facts attitude. Right must be distinguished from wrong through investigations. Where the law has clearly been broken and discipline breached, the offender must be handled in strict accordance with the appropriate regulations. Not for a moment can we be soft-hearted, relent, and tolerate corruption. Things that are out of step with reality must be promptly clarified.

Third, the rules must be enforced resolutely and unhealthy trends must be corrected in earnest. The management of lending must be tightened and every effort made to prevent new lending in violation of the law. Where loans have been made illegally, more must be

done to sort out the mess. The loans must be repaid and handled on a case-by-case basis in accordance with the 10 regulations laid down by the bank's headquarters. Interest rate management regulations must be enforced strictly. Unauthorized and covert increases in interest rates must be investigated and stopped. All regulations pertaining to the collection of fees and charges must be implemented strictly. Nobody shall increase without authorization the rates at which fees are collected or collect fees other than those which have been authorized. Links with institute-operated economic entities must be severed without delay and funds previously given to such entities should be recalled. A determined effort must be made to correct all kinds of unhealthy trends in the industry in light of the reality in the branches. People who demand payments must be severely criticized and handled. Appropriate rules and regulations as well as organizational discipline should also be drawn up. Democratic practices for party members and leading cadres must be steadfastly adhered to, as must the "two opens and one supervision" system so that the bank develop good habits and establish sound discipline.

Fourth, ideological and political education must be intensified. For the majority of party members and cadres in the PBOC system, the anti-corruption campaign is essentially a question of learning, of education. Ideological and political education takes care of the root causes of the problem as well as its symptoms and is as such a big part of comprehensive treatment. In the anti-corruption campaign, party organs at all levels must always intensify ideological and political education for the vast number of party members and cadres, treating this as the core of the campaign. The anti-corruption campaign must go hand in hand with the drive to improve the quality of the contingent of workers. A serious in-depth studying campaign should be organized for all party members and cadres so that they will resist money worship, hedonism, and ultra-individualism on their own initiative and develop the right philosophy of life.

**2. Master the Principles of the Anti-Corruption Campaign and Know Its Policy Limits. Ensure Its Healthy Development.**

The anti-corruption campaign covers a wide area and is closely related to policies. Party organs at all levels must adhere to the principle of seeking truth from facts, correctly distinguish between and handle the two kinds of contradictions, and enforce the policies strictly. Their attitude must be firm, their work solid, solving problems in earnest to meet the requirements of the CPC Central Committee and ensuring a healthy and orderly course for this campaign. They must take pains to abide by the following principles in the anti-corruption campaign:

A. Revolving closely around the core of banking work today, integrate the anti-corruption campaign organically with the rectification of financial order and the strengthening of financial discipline in accordance with

the spirit of the instructions of the CPC Central Committee and State Council regarding financial work. Correctly handle the relations between the campaign against corruption and the deepening of reform. Never waver from the central task of economic construction. The anti-corruption campaign must firmly adhere to the party's basic line, revolve around the core task of economic construction closely, and contribute to the deepening of reform.

**B. Concentrate on anti-corruption work targeting leading organs and leading cadres.** The headquarters and provincial branches must position themselves at the forefront of the anti-corruption drive. Headquarters organs should concentrate on leading groups at the two levels of bank and department while provincial branches should focus on leading groups at the bank and office. Only by zeroing in on leading groups can we get the anti-corruption campaign fully off the ground and truly create a good party style, good banking practices, and an atmosphere where people are encouraged to be honest and law-abiding. Leading cadres must do more than just tackling their own units; they must clean up the entire PBOC system. They must strive to meet the demand of the CPC Central Committee that leading cadres be honest and law-abiding. Only when they become honest themselves will they gain a voice and be able to seize the initiative in the anti-corruption campaign. Leading cadres must think of the big picture and stop being Mr. Nice Guy. They must summon up the courage to take responsibility and lead the rank-and-file cadres as well as the masses in combating corruption.

**C. Do not turn the anti-corruption campaign into a mass movement or give everybody a passing grade.**

Leading cadres must examine and correct themselves based on the CPC Central Committee's "five regulations" on honesty and self-discipline. Supervision by the masses must be beefed up significantly. The public reporting system must be further improved. Discipline inspection organs should investigate issues raised in complaints from the public in accordance with the law.

**D. Handle cases in strict accordance with the law.** Discipline inspection organs must get to the bottom of cases where the law has been broken, basing themselves on facts and using the law as their criterion. Cases in which the criminal code has been violated should be turned over to judicial organs for investigation. People who obstruct the investigation of a case seriously should be firmly dealt with. Corruption and other negative phenomena have so far been dealt with in an excessively lenient and half-hearted manner. That must now come to an end. People who should be dismissed or criticized should be handled accordingly. In cases where the conduct of an individual should be reported or circulated, that should also be done. Problems resulting from omissions and errors in day-to-day work and management must not be categorically regarded as corruption. Be careful to cherish the enthusiasm for reform and the creative spirit. Protect comrades who make mistakes as

they experiment with reform. Help them review the experience and draw lessons therefrom and encourage them to continue to push ahead. In the course of financial reform, new issues will crop up of which we do not have a clear understanding right away. Deal with them cautiously. Don't make rash decisions.

**E. Even as we combat corruption unwaveringly, we must give wide publicity to the positive.** Even as we crack down hard on all manner of corruption and punish corrupt elements, we must publicize and commend loud and clear and in a variety of ways advanced models who are honest and law-abiding and have the courage to take on corruption. Spotlight the new spirit of arduous struggle and of giving. Launch activities to study Jao Yulu [3542 5940 4389], Lei Feng [7191 6912], and the "two Lans" in depth. Further raise the ideological tone of the vast number of cadres and workers and enhance their ability to withstand corruption and change on their own initiative.

### **3. Strengthen the Leadership of the Anti-Corruption Campaign**

The struggle against corruption is a complex and arduous mission. Party organs of the PBOC at all levels must move vigorously to step up leadership effectively, with people from top to bottom working together to produce practical results and ensure that the CPC Central Committee's plans are carried through.

**A. Comrades in charge of party organs at all levels in the PBOC must assume full responsibility for leading the anti-corruption campaign.** Get involved personally. Play a personal role in planning. Stick to the policy of "grappling with two hands, both aggressively." Tackle the anti-corruption campaign and the promotion of honesty in the party as the top priority for the moment and make an earnest effort to pull it off. Leading groups at all levels should make plans for and organize the implementation of the anti-corruption campaign within their own jurisdiction. Major problems that appear in the campaign must be reported promptly and handled properly.

**B. Establish a responsibility system at each level, with one level supervising the next.** The masses must be fully mobilized to combat corruption under the leadership of party organs at all levels. Each level should be held accountable to the one above and help the one below. The headquarters should step up guidance and inspection of the branches. When a branch, unit, department, or office experiences serious problems, the departments at the higher level should send people there to help sort out the mess. In short, the anti-corruption campaign calls for real work. In some places of the bank system, work is half-hearted, unhealthy tendencies are well entrenched, corruption is rampant, and serious cases occur frequently with little effort being made to investigate them. As far as these places are concerned, apart from dealing with the personnel who have broken the law, the leaders concerned should also be held accountable.

C. Establish sound and coherent rules and regulations and perfect the mechanism for supervision and restraint. To eliminate corruption, we must create effective preventive and restraint mechanisms and a work system that are well suited to the socialist market economy. The anti-corruption campaign must be written into law. Identify those areas and linkages that are particularly vulnerable to corruption, taking into account the reality in banking work and the fact that thus far policies, laws, and regulations have failed to keep pace, and diligently formulate a host of rules and regulations in order to eliminate the soil on which corruption depends for its survival.

D. Strengthen and support the work of discipline inspection and supervision departments and party organs. Make the most of full-time organs. Party organs at all levels must hear reports from discipline inspection and supervision departments and party committees. Firmly support them in discharging their responsibilities in accordance with the party constitution and the law. Assign them tasks, give them ideas, and help them solve practical problems encountered in their work. Equip them with adequate resources to handle the cases based on the needs of their actual work and speed up the investigations.

Even as we combat corruption, we must commit ourselves to developing a contingent of workers for the banking industry and strengthening the organization of leading groups at all levels as well as developing their ideology and practices. Make a mighty effort to do a good job here by taking a range of measures of proven effectiveness.

The anti-corruption campaign is a long-term arduous task to be tackled as a piece of systems engineering. By combating corruption, we should raise the political caliber of the contingent of PBOC workers to a new level and advance banking work further.

#### Stock Market Trend 'Grim', Outlook 'Unpredictable'

94CE0312A Beijing JINRONG SHIBAO in Chinese  
25 Jan 94 p 2

[Article by Dai Jingming (2071 2417 2494): "General Trend of the Chinese Stock Market and Its Crucial Problems"]

[Text] When bringing up the subject of the general trend, insiders at the stock market are bound to regretfully state: The general trend is grim and the outlook unpredictable. In summary, the situation manifests itself in the following three ways:

1. Although the market has rapidly expanded, trading has, conversely, declined. From 1992 to 1993, the number of new companies and the aggregate market value of the Shenzhen and Shanghai markets have steeply increased from 71 companies and somewhat over 20 billion yuan to 182 companies and 352.1 billion yuan.

The general rule is that an expanding market will of course result in an expanding trade volume, but here in this case the facts run counter to what one would have wished for. Since the Chinese stock market turned bearish in July of last year, trade volume and trade value have declined day after day. There had indeed been times when the daily trading volume was around 1 billion, but trading volume at the current stock market is now completely different.

2. People show are low-spirited, and speculative activities overshadow investments. For quite a while now, the stock market has been in a turbulent, restless state, with many shareholders having "thrown good money after bad," a fact which has had a strong dampening influence on investment enthusiasm. It rather increased speculative inclinations, so that purely speculative trading, eagerly getting in on upward moves and abandoning items with declining tendencies, artificially creating sudden spurts in the market, giving forth fictitious notions, all such activities have become common occurrences.

3. It will still take quite some time to bring order into the disorderly state of share prices. Looking at the actual conditions in the stock market we see that there is no orderly way in which the first-, second-, and third-line share prices change, quite a few third-line share prices are higher than the second-line share prices, or even higher than the first-line share prices. A major reason for this is that the entire process of adjusting price positions is beset with much that is unrelated to the law of value, such as the procurement mentality, and regionalism, with the result that prices for some mediocre shares are high above those of quality shares. Faced with so grim a general trend, anyone in the role of an investor will of course be concerned and entertain fears, and it also stands to reason that agencies charged with the supervision and administration of securities trading, no matter at what level, should be extremely vigilant. Society generally believes that China, being a socialist country, where there is government support, and regulation and control by the state, cannot possibly meet with a calamity on the stock exchange. Anyone who will still stubbornly cling to this outdated idea, disregarding the many concealed danger spots that do exist in the operational processes of the stock market, is certainly very much wrong.

Where, then, are the problems in this grim overall state of affairs? In my opinion, the fundamental problem that presently impedes the steady development of the stock market is the incongruous state of the supply-demand relation and the imbalance between supply and demand. This contradiction will still be the major factor that will impede stock market development in China, also throughout 1994.

At present, the supply-demand contradiction manifests itself mainly as an excess of supply over demand. Let us first look at the supply side: The aggregate market value of the two markets of Shanghai and Shenzhen is now

352.1 billion yuan. Let us, furthermore, make an initial calculation: In 1994, it is planned to introduce to the market 5.5 billion yuan of new share offerings. Add to this the bonus shares [song pei gu 6623 6792 5140], state-owned shares, and shares owned by judicial persons, that will come on the market and be transferred, and also some shares for which transfer had not been completed in 1993; thus, the total amount will not be less than 10 billion yuan of shares. Converting at the rate of 10 yuan market value per share, we can then estimate that the total capital brought into the market will be over 100 billion yuan. These figures clearly demonstrate how large the supply will be, and how rapid a growth will occur. However, quite a number of specialists and scholars, who are engaged in studies of the stock market, make light of the increase in supplies and the subsequent pressure on the market. Commonly, the following three different theses are expressed in this connection: According to the first thesis, the absolute volume increase, as between 1993 and 1994, a mere 500 million, did not at all amount to very much, and besides, the infusion into the market has occurred evenly and in a well-distributed way. Market operations could easily foresee developments, so that this could not possibly have generated a shock of any severity. If analyzed from the angle of the total volume, of deposit volume, and of increase volume, this point can be further explained. As far as the single share offerings introduced into the market and the total market value are concerned, net increases in 1993, as compared with 1992, had been 1.5-times and 16.5-times, respectively, and in 1994, as compared with 1993, again 1-time and 0.3-times. It shows that the impact on the market in 1994 was much weaker than in 1992. The second thesis argues that the expansion has not only had a one-way, but rather a two-way effect. With the issue of new shares in the market, it was not only the supplies that increased, but they also brought along capital, which in turn initiated demand. The third thesis argues that there exists a huge demand potential which can easily cope with the pressure generated by the expansion. According to statistics, total savings deposits by the entire population amount to 1.5 trillion yuan, while the total amount brought into the stock market was only 100 million yuan, which accounts for not even 6.7 percent. This thesis argues that capital follows market conditions. Once the market situation is favorable, capital sources will open up widely.

Let us now examine the situation from the demand angle. Without too many qualitative analyses, here only three calculations: First, if we distribute the total 100 billion accretion of new shares among 16 million shareholding citizens (China now has 8 million shareholding citizens), each of them would have to invest another 6,250 yuan, while not withdrawing original investments, which would amount to having to buy 300 "development shares" [4099 1455 5140 4384] (computed at 21 yuan per share). Second, what portion of the 1.5 trillion aggregate deposits represents peasant deposits and what portion represents deposits by urban resident? According to investigation and analysis, not quite 0.5

percent of the urban residents' deposits could be truly available for investment in the stock market. That means at most 7.5 billion yuan could be made available from the said capital fund, which would make up only 7.5 percent within the new stock accretion. Third, new offerings of shares during the second semester of 1993 expanded at an average monthly rate of 7.4 percent, while the influx of capital into the market increased at the rate of only 3.5 percent, thus leaving a disparity of 3.9 percent. Some particular shares even showed a reverse movement, such as the "development A shares." The total share capital expanded from the 140 million yuan of 1992 to 270 million yuan in 1993, thus supplies increased 93 percent. However, only not quite 40 percent of the 1992 amount came in in 1993 as the capital of "development A shares," demand having thus declined by somewhat over 60 percent. In 1994, which is supposed to be the "Bond Buying Year" and the "Fund Building Year," the divergent flow of capital will no doubt receive much attention. In view of the present trend, our prognosis is: On the one hand, supply will expand at an accelerated pace, and, on the other hand, demand will, conversely, decline, and this will further aggravate the conflict between supply and demand. The shortage of capital funds in the stock market will increasingly constitute a bottleneck that will hamper the development of the stock market.

What is the remedy? The radical cure would be to return again to the real demand of the market, to effect a well-balanced adjustment of the current plans for the issue and market offering of shares, so as to have demand determine supply, and to truly establish a plan for the issuing and market offering of shares on the foundation of actual demand in the stock market.

#### Treasury Bond 'Image' Seen Needing Improvement

94CE0311A Beijing JINRONG SHIBAO in Chinese  
26 Jan 94 p 1

[Article by Cai Xianshi (5591 0341 1395), Sichuan Province Branch of the People's Bank of China: "Some Thoughts on How To Stimulate Treasury Bond Sales"]

[Text] As the curtain has gently descended on our 1993 activities of issuing treasury bonds, and as we earnestly recall the events of that memorable year, we cannot evade the thought that the image of the treasury bond urgently needs to be rehabilitated and improved.

#### 1. Treasury Bonds Too Must Be Marketable and Adapted To Demand

Any new product that enters the market will have to stand the test of the market. If its sales are sluggish, the first check should concern itself with the product itself, for instance, whether consumers find price, quality, style, or after-sale services acceptable or not, how well the world is aware of the product, whether it has been sufficiently publicized, whether it has made an impression on the minds of the people, and how the product

ranks in its competition with similar products. If there is nothing questionable in these respects, the product is bound to find favor in the eyes of the consumers. The accuracy of this principle has indeed been well revealed in the course of marketing treasury bonds since 1981.

In its present era of sustained economic development, China is faced with an extremely serious contradiction in the supply and demand of capital funds for its entire economic operations. Raising capital for its construction projects, through an appropriate amount of borrowing, in order to stimulate the economy toward sustained and solid development has, therefore, become a matter of major significance. This year the task of placing treasury bonds will be further enhanced beyond the foundation laid in 1993. Faced with this grim challenge, we must free ourselves from old ideas, update our concepts, and we must also, while consciously and firmly resolved to develop the socialist market economy, become highly proficient in matters of placing government bonds, so that the sale of government bonds will proceed more actively and more effectively in the new year.

Issuing government bonds amounts to fiduciary borrowing by the state and the government from the people, and establishing with the subscribers to such bonds, on a voluntary and mutually beneficial basis and on certain conditions, a relationship of creditor and debtor. Buying government bonds and paying taxes are two completely different concepts. Characteristic of the former is its voluntary and remunerative nature, while the latter is compulsory and without remuneration. If these two concepts are confused and become mixed up, actual work will end up in devious aberrations. The voluntary character is therefore an unshakeable principle in government bond subscriptions. In marketing the bonds, it is not sufficient to have the masses regard buying government bonds as doing one's bounden duty or merely as a patriotic act, they must rather fully understand and recognize it as a profit-motivated investment alternative. As the socialist market economy is developing further and as the people are becoming ever more knowledgeable about financial matters, this alternative of acquiring government bonds is becoming a more rational alternative. Under the past system of the unitary planned economy, financial assets of China's citizens showed up only as savings deposits, while now, the investment tendency is toward shares and high-yield bonds (government bonds essentially occupy an insignificant place in the vast majority of households). There is here actually an imbalance in the structure of financial assets of households. During 1993, in spite of a large-scale political mobilization and of raising interest rates twice, the issuing of government bonds still did not proceed satisfactorily, and this is a matter that deserves serious thought. Ample consideration to the economic capability of the masses to take up bonds and to the psychological threshold of the masses must be precondition before we zealously strive to create the macroclimate that is needed for the successful placing of government bonds. History has proven that the effective way of propagandizing

government bonds is not to merely stress the financial advantages for the government or the financial advantages for the investors. The correct way is, on the one hand, an intensified mobilization of political thought, and, on the other hand, continuous arousal of investment fervor among the masses. This is the only way to gradually nurture a healthy investment attitude. It should not be a matter of the government wanting me to buy government bonds, but rather that it is I who needs to buy government bonds.

## 2. Serious Efforts To Improve Operations, Perfecting the Image of Government Bonds

To ensure timely fulfillment of this year's task of placing government bonds, it is in my opinion necessary to do a good job in the following respects:

A. Governments at all levels must foster an overall point of view and a long-term point of view, to doubly cherish the reputation of government bonds. Intensified political propaganda must be incisive and meticulous, must be fastidious about method, while the sentiments of the investors must also be fully respected. Oversimplification and overeagerness for quick results are short-sighted and will in the end impair the investment enthusiasm of the masses, will be psychologically counterproductive, and will fester like an incurable disease. If repeated efforts still fail to achieve fulfillment of the task of placing government bonds, the deficiency must be made up in some other way, based on a comprehensive improvement of the investment climate.

B. Reaffirming the principle of the priority of government bonds. Higher government agencies must delegate to lower fiscal and financial departments the authority to impose punitive restraints against capital-raising activities that violate the principle of the priority of government bonds. Against obstinately self-willed units, the government should take a clear-cut stand in exposing them through the news media, and if necessary even freeze the funds these units may have raised, and hold them until the requirements of the government bond sales have been met.

C. We must exert great efforts in opening up a secondary market for government bonds. In a certain sense, the secondary market for government bonds is also a kind of post-sale servicing of this financial commodity. The more lively the secondary market gets, the more outstanding the performance of the post-sale service, and the higher the reputation of government bonds. For this purpose, we must effect a comprehensive regulation of the financial order, then exert a major effort in initiating a secondary market for government bonds, and accomplish a benign cycle of interdependence and mutual support between the secondary and the primary market. For the purpose of protecting the legitimate interests of the investors, the government should intervene, as necessary, with the intermediary organs dealing in government bonds, prescribing the minimum rate to be paid by

purchasers of government bonds and demand that listings be subject to supervision by the general public.

**D. Rational determination of the interest rate of government bonds.** In China this determination must consider the attractiveness of bonds for investors, and consideration must be given at the same time to the costs of raising capital and the capability of public finance to repay capital and pay interests. In Western countries, the general level of interest rates of government bonds is not at all high (in some countries it is somewhat lower than the interest for savings deposits of the same quality), but they are made attractive by exempting interest income from such bonds from taxation. Investors can therefore still expect good profits from the purchase of government bonds. However, since China's tax system is not yet in perfect condition, the treasury bonds, though by themselves quite attractive, are now making a poor showing. Starting out from the Chinese realities, it would be appropriate to set interest rates for treasury bonds two or three percentage points higher than the interest rates for savings deposits of the same quality.

**E. Adjusting the irrational denominational structure of treasury bond.** The irrational denominational structure of the treasury bonds is also a major impediment to the sale of these bonds. An investigation has shown that the general situation of Chinese households that are presently capable of buying government bonds is such that most are of middling financial capability, with few at the extreme ends. We must therefore start out from this fact in determining the denominational structure of treasury bonds. A scientific determination of this structure would not only benefit their marketing but also reduce printing expenses. It has been computed that printing bonds in the three denominations of 50, 100, and 1,000 yuan would meet the needs of investors in the various income brackets, and printing should best be at the rate of 20, 70, and 10 percent, respectively.

### 3. Issuing Bonds at a Premium Might Be Tried

The issue of government bonds has by now been resumed for 13 years, since 1981. Issues have always been at face value, with repayment of principal and payment of interests on maturity. Investors have become somewhat tired of the same old appearance of the bond issues, which for a long time have lost the stimulating attractiveness of something new. To create a new image for government bonds and arouse new buying fervor among investors, it might be tried to issue government bonds at a premium. The advantages would be:

**A. Enhanced incentive to buy government bonds.** From the psychological viewpoint of the investor, rather than gaining a portion of interests by means of a large amount of initial investment, it might appear a better way to invest only a part of the capital and at due date receive a

fixed sum. Laying out a fraction and having it grow to a large sum is generally the psychology of persons intent on saving. If a 3-year government bond pays 14 percent interest, a 1,000-yuan bond will have grown to 1,420 yuan, principal and interest, at maturity. If the bond, on the other hand, would have been issued at a premium, the bond of 1,000-yuan face value could have been bought for about 705 yuan (getting back to the capital amount according to the formula: capital and interest = capital + capital x interest rate x time. To overcome the trouble that odd fen amounts would present at the time of issuing the bonds, it should be permissible to make appropriate adjustments and round off capital figures as much as possible to whole yuan numbers, within the limits of the interest rate). At maturity the bond would be redeemed at face value. Even though the same amount would in the end be gained whether issued at face value or issued at a premium, there is a big psychological difference as far as the investors are concerned, and this new style of the financial commodity may act as an increased inducement for investors.

**B. It is beneficial for medium-term and long-term investing.** It will also prevent indiscriminate large-scale dumping. An investor who has bought government bonds at a premium will thereby have decided on obtaining his profit at maturity. In general, an investor will not abandon his profits halfway. This kind of stability will greatly contribute to an increased trust in and reputation of government bonds.

**C. Simplification of procedures, facilitating cashing in by the general public.** Cashing-in of government bonds has always been troublesome for public finance and banking departments. Most of the general public have also often resented the much too cumbersome procedures of filling out forms for payment, for interest calculations, and for make-up funds [pei kuan 6792 2949]. If bonds were now issued at premium, payment procedures would be extremely simple. The teller would only have to check whether the government bond is genuine and whether it has matured, and would then cash it at face value. The bond would be redeemed in exchange for cash. This heightened efficiency of cashing-in would eliminate lining up in long lines at the counter. It would really create favorable conditions for the next round of bond issues.

**D. Simplification of accounting procedure, improving accounting quality.** When issuing treasury bonds at premium, cashing-in of bonds would not involve computing capital and interest, it would merely require verifying the year, the bond, and the amount, and this would significantly reduce calculations by the teller and be beneficial in helping to avoid accounting mistakes.

**E. It would create favorable conditions for the flexible adjustment of time limits for government bond issues.**

## INDUSTRY

**Gross Industrial Output Value in January***HK0103124394 Beijing CEI Database in English 1 Mar 94*

[Text] Beijing (CEIS)—Following is a list showing China's total industrial output value in January 1994, released by the State Statistical Bureau:

			(in 100 million yuan)
	1/94	1/93	chg over 1/93(%)
<b>Total</b>	<b>2903.3</b>	<b>2179.1</b>	<b>33.2</b>
<b>Including:</b>			
Light ind.	1403.1	1019.8	37.6
Heavy ind.	1500.3	1159.3	29.4
State firms	1453.5	1275.6	13.9
Collectively owned ones	1054.7	708.1	48.9
Others	395.1	195.4	102.2

Note: The industrial output value is measured in 1990s constant yuan.

**Output of Mechano-Electronic Products in January***HK0103124594 Beijing CEI Database in English 1 Mar 94*

[Text] Beijing (CEIS)—Following is a list of the output of China's major mechano-electronic products in January 1994, released by the State Statistical Bureau:

Item	Unit	1/94	1/93
Power equipment	10,000kw	83.73	28.67
AC motor	10,000kw	428.79	405.06
Industrial boiler	ton	4135.80	3877.00
Machine tool	10,000set	1.49	1.68
<b>Including:</b>			
NC machine tool	set	856	785
precision machine tool	set	107	119
Large machine tool	set	395	381
Automobile	10,000	10.66	9.16
<b>Including:</b>			
Bus	10,000	0.60	0.71
Car	10,000	2.15	1.41
Truck	10,000	4.87	4.08
Motorbike	10,000	26.11	39.63
Tractor (20hp/above)	10,000	0.27	0.42
Small tractor	10,000	8.03	7.05
Locomotive	set	89	67
<b>Including:</b>			
Diesel	set	59	40
Steam	set	1	2
Electric	set	29	25
Passenger coach	set	165	97

## (Continued)

Item	Unit	1/94	1/93
Freight wagon	set	3704	2002
Internal combustion engine	10,000kw	829.81	731.90
Fishing ship	-	-	3
civil steel ship	10,000ton	16.46	18.53
Computer	set	4	27
Micro-computer	set	5530	4099
Color crt	10,000	96.01	40.35
Program-controlled switchboard	10,000set	67.72	26.68

## Output of Main Chemical Products in January

HK0103124494 Beijing CEI Database in English 1 Mar 94

[Text] Beijing (CEIS)—Following is a list of the output of main chemical products in January 1994, released by the State Statistical Bureau:

Item	Unit	1/94	1/93
Chemical fiber	10,000t	19.11	16.25
Sulphuric acid	10,000t	16.17	13.58
Dense nitric acid	10,000t	3.78	3.50
Soda ash	10,000t	48.02	38.24
Caustic soda	10,000t	32.73	26.84
Ethylene	10,000t	19.43	17.80
Calcium chloride	10,000t	18.29	17.95
Pure benzene	10,000t	7.71	6.97
Synthetic ammonia	10,000t	161.33	163.81
Chemical fertilizer	10,000t	158.12	142.49
(Nitrogen)	10,000t	126.75	114.09
(Phosphorous)	10,000t	30.03	26.07
(Potash)	10,000t	1.40	0.87
Chemical pesticide	10,000t	1.63	1.52
Paint	10,000t	7.03	6.86
Dyestuff	10,000t	1.52	0.96
Chinese patent medicines	10,000t	2.17	1.59
Tyre	10,000pc	515.45	411.22
Synthetic rubber	10,000t	4.24	3.37
Film	10,000m	882	1412
(Color film)	10,000m	882	1412
Plastics	10,000t	29.46	24.67

Notes: t - ton, pc - piece, m - meter

**SMALL-SCALE ENTERPRISES**

**Jilin Sets Goal for Private Economy in 1994**  
*94CE0303L Changchun JILIN RIBAO in Chinese*  
 28 Jan 94 p 1

[Summary] In 1994, individual and private enterprises in Jilin Province will total 700,000, and employ 1 million people.

**FOREIGN TRADE, INVESTMENT**

**Trade Journal Views Overseas Enterprises**  
*94CM0293A Beijing GUOJI SHANGBAO in Chinese*  
 22 Jan 94 p 2

[Article by Wang Xiaochuan (3769 0879 1557): "Raising China's Overseas Enterprises Management Standards To Meet International Competition." The author is affiliated with MOFERT's Personnel Department]

[Text] China has approved the setting up of more than 4,000 overseas enterprises since reform and opening up. Total Chinese investments have reached approximately \$5 billion. These enterprises are scattered in more than 100 countries and regions, and they handle energy, industry, and services and other businesses. A decade of practice proved that their existence and development played a positive role in the development of China's national economy, mainly in spurring on China's export trade, and in particular, they played an irreplaceable role in circumventing the host countries' trade barriers. They also played a role in developing overseas resources to supplement our country's inadequate resources. Such overseas resources include financial and technological resources. But objectively speaking, from the point of the overseas enterprises' foreign investments and transnational operations, we have only taken the first steps, and compared to international standards, we still have a long way to go. In order to narrow the gap as soon as possible and upgrade our overseas enterprises, we must take into consideration the needs of the transnational operations and focus on our own inadequacies and make improvements and adjustments. This article addresses the existing problems and offers some countermeasures.

**I. Inadequacies in China's Overseas Enterprises Today**

1. There is a lack of thorough knowledge of the global characteristics of the 1990's, and our entry strategy needs adjustments:

To understand this problem, we must first look at the characteristics of today's global transnational operations. Everybody knows that global transnational operations which have undergone nearly 50 years of development have completed their preliminary phase and are entering an intensive development phase characterized by the following:

**A. Transnational operations are getting bigger.**

According to statistics compiled by the United Nation's Transnational Companies Center, in 1993, transnational companies were operating more overseas enterprises, but more striking is that their total overseas investments have topped \$2 trillion, increasing some 20-odd folds compared to the 1970s. This change has in turn changed the world's economic pattern: Today, one-third of the world export of goods and services are transacted between the parent companies and their subsidiaries. For example, in the United States, transnational companies' annual trade and overseas profits are worth around \$100 billion. By conservative estimates, their internal transactions accounted for more than 60 percent of that country's total export of manufactured goods in 1992. They also created nearly 5 million jobs.

**B. Expansion forces the transnational companies to go beyond regional boundaries to engage in fierce competition.**

For geographic, national, and historical reasons, besides investing in each other in the traditional sense, transnational companies have reached some kind of tacit understanding in the underdeveloped nations and regions based on their regional strategies: For example, Asia is dominated by Japan; the United States basically has a monopoly in Latin America; central Europe, Eastern Europe, and parts of Africa naturally fall within the European Community's domain. But increasing evidence shows that due to differences and imbalance in economic strength and technological standards, and for various political reasons, their spheres of influence are constantly under siege. The transnational companies are becoming global companies.

**C. Intense competition has prompted the transnational companies to change their management strategies.**

To adapt to the needs of expansion and regional strategies, transnational companies have modified their traditional single-operation strategy to a multiple- or compound-operation strategy. Instead of a bunch of individual nation-based subsidiaries set up only to serve their respective countries, we now see many subsidiaries that are integrated organizations with organically linked functions that cover the entire spectrum, from production to sales, with development, research, and sales promotion tasks in between. Their main characteristic is to give full play to the existing scientific and technological measures, production capacity, and development capability, and the basis of their strategy is to focus on cost and profit. Integration at this point in time has profound implications. These enterprises may appear to be coordinating trade and fund circulation, but in fact they are coordinating commodities and labor and other productive activities.

What about our own situation? Our overseas enterprises have always believed that China has only just begun its transnational operations, and so long as we get out and fight our way through, so long as we find a place for ourselves, we should be happy and satisfied. Moreover,

since China is still a developing nation, our transnational operations can only do business in a small way and cannot set high standards, and that belief has translated into management strategies and tactics that only allow us to make war in the peripheries. We have never seriously studied the characteristics of contemporary transnational operations and have never taken the initiative to adapt.

2. There is a very low degree of integration in management:

The above shortcoming is reflected in operations with a low degree of integration. Up to now, the absolute majority of China's overseas enterprises have only tackled jobs that were there and work they could handle. Their production management programs and plans and transnational strategies and tactics are instructions handed down to them. They cannot shape the companies' behaviors or management activities. Many overseas enterprises are practically "fly-by-night" outfits and "individual peasant households." Their actual operation, business scope, and product mix often have little or nothing to do with the core business of their parent companies back home. Clearly, this condition does not foster the organic integration of domestic and foreign key factors of production, and it also makes it difficult to achieve the goal of integrating the management goals of the parent companies and their overseas companies. Of course, we should understand that some enterprises may be profitable in the short-run, but in essence, they still do not comply with the objective needs and the intrinsic laws of internationalized commodities production, and therefore they cannot be considered transnational operations or overseas enterprises in the true sense.

3. The organizational structure is still like that of an elementary business cooperative:

Except for the oil refineries in the United States and aluminum plants in Australia and some other large projects, China's overseas enterprises generally operate in small scale; the degree of concentration is fairly low. The average investment per enterprise is less than \$13 million, compared to an average of \$45 million for the developing nations and \$60 million for the developed countries. Obviously there is a wide gap. Ultimately, transnational operation is a contest of financial and comprehensive strength. Without a certain enterprise scale and financial basis, we are doomed to be weak from the start. Moreover, since the markets have already been captured by others, it makes it even harder for China's enterprises to get in. To complete the picture, these enterprises are operating with people of ordinary qualifications and a simple labor-mix and management mechanisms. People compare them to "mom and pop stores." It may not be exact, but it draws a vivid picture.

Under this system, there are some problems, such as loopholes in bookkeeping and lax management, which these enterprises cannot avoid or resolve by themselves.

**II. Countermeasures: Several Suggestions on Raising Overseas Enterprises' Management Standards**

As mentioned above, Chinese enterprises' overseas investments were given impetus by the state in conjunction with its all-encompassing policy of opening up to the outside world to encourage the full utilization of international resources and international markets. The entire process had the distinct characteristic of being artificially stimulated, which was consistent with China's overall policy in the last decade or so to vigorously open up to the outside world. It is no small accomplishment for Chinese enterprises' transnational operations, which had to start out from scratch, to develop to today's scope in such a short time, but faced with the intense competition from other nations' transnational operations, we must focus on the above problems and quickly come up with some countermeasures to raise our management standards. In the near-term, I think Chinese enterprises' transnational operations should work hard in the following areas:

1. We need a proper understanding of the characteristics of the times and put our management ideas on a high point.

Earlier we have briefly talked about the characteristics of today's global transnational operations. Through that discussion, we have come to understand that a characteristic of the times is that transnational companies are the product of a combination of political and economic factors. So long as these factors do not change dramatically, this characteristic not only sums up the transnational operations at this early stage but can also be interpreted as a basic requirement and the norm of transnational operations for some time to come. This fact may be more important in the practical sense and more valuable from the economics point of view. Thus, in order to achieve our goals through the global transnational operations, understanding and grasping this characteristic, and even making it the basis of our operations, are especially important. It may be regarded as the premise and the basis of improving and raising the management standards of China's overseas enterprises. This is an issue of concept and is also an issue of management strategy.

2. We should promote the concentration and optimization of the existing overseas enterprises.

After we have resolved the issue of strategy, as a second step, we should begin to increase the concentration and optimize the existing overseas enterprises which are too small and too scattered.

The core enterprises should make a thorough analysis of how the transnational companies stake out their territories and how regional economic integration is shaping up, and on that basis, they should conduct a solid assessment of their existing overseas enterprises and formulate a brand new program which takes into account their own strength, the market forecasts, and the territories they intend to get into. They should strive to acquire

the capability to directly confront the large transnational companies in specific territories and regions and compete in global transnational operations.

Whether we can formally take part in the global competition and whether we can acquire the capability to engage in direct confrontation will be critical to Chinese enterprises' transnational operations. To explain the importance more clearly, I will cite a thought-provoking example:

The sale of equity rights to a New Zealand steel mill in 1989 caught industry-wide attention. Chinese enterprises put in a great effort, but because our enterprises had always engaged in small business and for other reasons, the deal which had been very promising eventually fell through because the New Zealand side had no confidence in our overseas enterprises. Imagine, if it had been successful, the status of our overseas enterprises in the world iron and steel industry and business circles would have been greatly enhanced, and we would have gradually gained strength too. Thus, modern industrial management mandates large scale; without size, there can be no efficiency.

How can we increase enterprise concentration? Based on the successful experiences of global transnational operations and on what China's enterprises can handle, there are the following ways: One, within the confines of the same region, merge the small companies into one or two relatively large companies. Two, apply the shareholding system to link companies that are under the jurisdictions of different organs. Three, domestic financial organs should act as guarantors in international financing and capital expansion. Four, set up joint ventures with the host countries' enterprises or with enterprises of a third nation to increase size. As can be imagined, concentration is not something China's overseas enterprise operations can achieve in one leap.

### 3. We should implement international practices and general methods to improve the management of overseas enterprises.

Transnational management formats and practices that are widely accepted today have been developed by many countries and entrepreneurs based on the laws of international economy in combination with many years of practice and continuous summation of past management experiences. To those of us who developed transnational operations late, these practices and methods are a priceless treasure. They are important because they can eliminate detours and failures and are an organic integration of management theories and practices. We need not come up with our own proofs or experiments. They have minimized our opportunity cost, and we late-comers can apply or utilize these methods directly under appropriate conditions. Based on our own situation, we should consider adopting the following methods:

#### A. The heart of transnational management and administration is integration.

Theoretically speaking, integrated management is self-evident for all kinds of enterprises. Even if there are different formats and mechanisms of division of power, all enterprises must still be essentially integrated. Ordinarily, this would apply to enterprises in transnational operations as well. But in order to combine domestic and foreign key factors of production, these enterprises have developed a management format whose basic characteristic is to invest and operate overseas. This mandates the separation of overseas and domestic operating entities and that the entities be relatively independent. No doubt such separation makes the operations of the parent companies at home and the overseas enterprises abroad more convenient and serviceable. But there is no denying that such a relationship also hides the potential for variances in management. In particular, enticed by easy and immediate profit, enterprises are prone to develop strategies and goals that are contrary to the core companies. If the core companies fail to discover them or succumb to this kind of profit, the overseas enterprises may eventually become "resident-alien enterprises" and be completely independent from their parent companies.

Looking at the transnational operations of enterprises of all nations, they all have strategic considerations, and what they focus on is to help the core enterprises utilize foreign resources and further expand their territories and spheres of influence. But China's transnational operations are launched not only for the above reason but also because economic constructions at home need money too. We can imagine the huge strategic importance. Under the circumstances, whether from the economics point of view or for geographic reasons, we should not allow our overseas enterprises to act alone and become independent. Instead, we should modify them and turn them into transnational management groups with the domestic core enterprises at their hub. The operations of all overseas enterprises should be put into the production and management chain of the core enterprises and turn them into an organic part of the group, such as the spare part and component producing department, the assembly department, and the group's sales department and so on, and each should also have its appropriate structural functions.

#### B. The road to transnational operation is localization.

Overseas enterprises operate in the host countries and are in an environment often more complicated than that at home. Many economic laws and human factors play a role, and in order to fulfill their responsibilities and run their transnational operation successfully, these enterprises must first acknowledge that they belong to their host countries in form and are legal entities operating in the socio-economic and legal environments of the countries where they are located. In other words, they must make localization the starting point and the only avenue.

The meaning of localization is two-pronged. First, it means hiring local workers; second, it means adopting local enterprise management practices.

The hiring of local works involves not just ordinary staff but also middle management and a few upper management personnel, and it also involves some special employees, such as lawyers, certified accountants, auditors and other professionals. We must interpret the use and development of foreign resources in the broad sense to include the use of human resources. There are many advantages to this, and at the least, we gain some training time.

Adopting local management methods involves many areas. I think the most important is that we should directly adopt local or internationally accepted financial management systems, accounting methods, and auditing procedure, and so far as systems are concerned, we can have partnerships, a shareholding system, boards of directors, and boards of supervisors and so on. Our existing overseas enterprises have adopted these sporadically with fairly good results, and of course those that have adopted them systematically have even better results. Thus we must be determined to adopt this set of internationally accepted methods to replace some of the unruly practices and behaviors of some overseas enterprises.

Only when we begin to localize the operations can we formally get on the host countries' economic tracks. This is important not only because we are accepting the host countries' supervision and management in form, but the real essence is that this is the way to legally get the host countries' permissions to utilize their resources and reap

the profit. This is the premise and the basis of transnational operations, and it is also the lifeline to improving transnational management.

People often believe, in a superficial and simplistic way, that accepting the host countries' regulations and management practices will make things more complicated for ourselves and jeopardize our integrated management. But if we analyze this carefully, we will arrive at the opposite conclusion. For many years, our transnational management has been in a dilemma: We want to develop overseas enterprises but we also worry about losing control. We have tried to modify our existing management mechanisms as a way of adapting, but despite repeated efforts, we have not found a better way. If we modify our thinking and utilize the host countries' existing management mechanisms, we not only will satisfy their demands but can also utilize their management resources to remedy our own management deficiencies. That is good economics.

Raising the overseas enterprises' management standards is a micro issue as well as a macro issue. Enterprises engaging in transnational operations naturally should study the matter carefully, but the state too must provide the necessary external conditions, such as designing proper government functions, creating a legal environment, and formulating a long-term economic plan.

In short, this is a fairly large issue with broad ramifications. We are only making some suggestions here.

**Major Automobile Smuggling Case Solved in Guangxi**

**94CM0142A Chongqing XINAN JINGJI RIBAO**  
in Chinese 10 Dec 93 p 1

[Article by Hong Mei (4767 2734) titled: "Major Automobile Smuggling Case in Guangxi Solved"]

[Text] A major car smuggling case in Guangxi Province involving some 798 vehicles and smuggled case totalling in excess of 150 million yuan was recently solved.

Early in 1993, under an illegal plan hatched by a certain Hong Kong businessman surnamed Ning, the general manager of the Qinzhou City Goods and Materials Company, Pei Yuchun [5952 5940 2504], the manager of the first corporate trade department subordinate to the Qinzhou branch of the People's Bank of China, Chen Zuheng [7115 4371 0077], the manager of the Beihai City Industrial Supply and Marketing Corporation, Luo Peng [5012 7720], and the manager of the Liuzhou City Foreign Economic Trade Corporation's Chemical Branch Corporation, Zeng Biao [2582 1753], in order to provide individuals and their own units with exorbitant profits, and using relevant stipulations under which China allows commodity trade to be carried out with a number of countries, adopted a falsely signed commodity contract, and bogus reporting of a production site as a method to avoid customs inspections, and without restraint engaged in automobile smuggling criminal activity. Without authorization, they used the name of the Liuzhou Foreign Economic and Trade Corporation, and plotted to sign false barter contracts for 1389.98 tons of zinc ingots and 294 tons of zinc oxide, respectively, in exchange for importing 686 and 112 "Modern" brand small automobiles. They falsely reported the vehicles' original place of production, keeping clear of the state import export licensing administration, and obtained a customs signed and issued "import export commodity tax free certificate." This resulted in the clinching of a deal for 798 smuggled automobiles which passed the border with no trouble. In order to defray the costs of the transaction, the Qinzhou Commodities Corporation Head Office and the Beihai Industrial Supply and Marketing Corporation actively raised money, and entrusted Chen Zuheng before the case was discovered to collect in succession eight sums of money totalling more than \$11.2 million and deliver them to Ning's Yisheng Corporation in Hong Kong.

After the case was discovered, they also mutually colluded, and continued to falsely create automobile original manufacturing site documentary materials, and provide false information on nature of their trading, to conceal their smuggling.

The "798" smuggled automobiles case caused the country tremendous economic loss. In November of 1993, the Guangxi District Discipline Committee and the Supervisory Office conducted a rigorous investigation of the entire case. The four people involved, including Pei Yuchun et al., have been expelled from the

party and administrative disciplinary measures have been taken against them. Because of their violations of the law, the case has been handed over to judicial organs for investigation. Others bearing major responsibility have also been punished through expulsion from their posts in the party, placement on probation within the party, and some have been relieved of their administrative positions.

**Tibet Cracks Down on Smuggling**

**94CM0142B Lhasa XIZANG RIBAO** in Chinese  
14 Jan 94 p 1

[Unattributed article titled: "Lhasa Area Cracks Down on Smuggling"]

[Text] Since August of last year, in various areas throughout the entire country, various departments, in accordance with the plans of the Party Central and State Council, have taken joint action, together grasped joint management, in focusing on launching anti-smuggling joint action and special projects for combatting smuggling. Last year, between August and October, various coastal provinces, cities, and autonomous regions ferreted out 2984 smuggling cases, amounting to more than 900 yuan in value. Up to this point, sea and land-based pernicious smuggling activity had already been controlled to some degree, and China's open environment to the West and internal economic order were gradually being purified and strengthened.

In a manner similar to the gratifying situation occurring all over the country with attacks on smuggling activity, Tibet's work in attacking smuggling has also achieved a phased success: First, a leading organ for attacking smuggling on a regional basis has been established, and in conducting special purpose attacks on smuggling, full play is being given to the core effect; second, a case involving a group using border passes to smuggle reactionary and obscene propaganda material, gold, cultural relics, rare wild animal skins, fur, and bones has been cracked, and the activity of a criminal group smuggling internally and outside the border has been controlled; third, market management has been strengthened, and groups smuggling goods such as automobiles have been investigated and controlled; fourth, inspections have been launched concerning enforcement of the law, and the establishment of anti-contraband teams has been strengthened; fifth, anti-smuggling education has been launched, and combined with Tibet's practical dissemination of "Customs Laws."

However, we must note that anti-smuggling in Tibet is still a long-term and arduous task. In particular, because a portion of enterprise units participate in smuggling activity, there exists in the society a mistaken sense that smuggling will lead to riches, and the implementation details for Tibet carrying out national anti-smuggling legal statutes have not been fully perfected. Because the work awaits gradual strengthening, Tibet's struggle with anti-smuggling work also faces a very arduous task.

We should note that attacking smuggling in reality is a serious political struggle between vast numbers of cadres and the broad masses, and an extremely small number of smugglers. The corrosive effect of rampant smuggling on staff and worker teams, the effect of the credit situation, and attacks on the normal management mechanisms are all substantial. In Tibet, the state has provided preferential policies for foreign trade, and any smuggling activity in fact infringes on the interests of the autonomous region; any illegal profit seeking activity, objectively speaking, is a forceful blow against normal lawabiding management and against our establishment of a socialist market economy. Attacking smuggling is not only a requirement for us to put in order and rectify the social

and economic environment, and safeguard national interests, but is also a requirement for our safeguarding of the basic interests of the broad masses and striving for Tibet's long-term sustained development.

Properly handling the anti-smuggling struggle requires reliance on responsibility being taken by party and government leadership at all levels, and at the same time requires the mobilization of the masses, and reliance on the masses, to jointly construct a steel great wall in the anti-smuggling struggle. Only in this manner will it be possible to create a healthy and stable environment for Tibet's reform and opening and economic development.

## NORTHWEST REGION

## Role of Anti-Japanese Volunteers in Xinjiang

94CM0124A Urumqi XIYU YANJIU [THE WESTERN REGIONS STUDIES] in Chinese No 4, 15 Dec 93 pp 21-28

[Article by Yu Rongchun (0060 3310 2504) of Xinjiang Academy of Social Sciences, and responsible editor Qi Qingshun (7871 3237 7311): "Political Role Played by Anti-Japanese Volunteer Army in Xinjiang"]

[Text] This year marked the 60th anniversary of the entry of the anti-Japanese northeast volunteer army (hereafter abbreviated as the northeast volunteer army or volunteer army) into Xinjiang. To commemorate the event, this article examines some of the issues relating to the northeast volunteer army in Xinjiang.

#### 1. Entry Of Northeast Volunteer Army Into Xinjiang: How It Happened

After the 18 September incident, the Nanjing government adopted a "zero resistance" policy and ordered Chinese troops in the northeast to retreat to behind Shanhaiguan. It was not long before our beloved motherland between Bai Shan and Heilongjiang fell into the hands of Japanese imperialism. Disregarding Chiang Kai-shek's [Jiang Jieshi] strict order and unafraid of sacrifice, the masses in the northeast and some patriotic officers and men in the northeast volunteer army were determined to resist the aggression of Japanese bandits. At one point volunteer forces across the land numbered in the hundreds of thousands, even as many as one million, hitting the Japanese imperialists hard. However, the anti-Japanese units each fought on their own and received no tangible aid from the Nanjing government. By the winter of 1932, therefore, some had been annihilated by the enemy. Others, reeling from heavy losses and short on arms and food, found themselves in dire straits. Subsequently, a small number of volunteers joined the allied forces fighting Japan under the leadership of the CPC and firmly continued the war of resistance in the northeast under the most difficult conditions. Some volunteers overcame the enemy's successive lines of blockade and made their way to the Great Wall where they continued to defy the Japanese. Volunteer forces under Su Bingwen [5685 3521 2429] (a former Hulun Buir garrison commander and a former Hai-man railway protection commander who subsequently became commander-in-chief of the northeast people's save-the-nation army) and Ma Zhanshan [7456 0594 1472] (formerly Heilongjiang garrison commander, later acting chairman of Heilongjiang Province and concurrently deputy commander of northeast frontier forces stationed in Heilongjiang), which were the backbone of the volunteer army, ran out of ammunition and food supplies and retreated into Soviet territory on 4 December 1932. (Footnote 1: There have always been conflicting claims that Su Bingwen and others retreated into the Soviet Union on 3, 4, 5, or 7 December 1932. A

telegram sent by Zheng Runcheng [6774 3387 1004] and Su Guo [5685 0948] to Chairman Lin Sen [2651 2773], Commander-in-Chief Chiang Kai-shek, and Deputy Commander-in-Chief Zhang Xueliang [1728 1331 5328] of the Nanjing government on 9 April 1933 read, "Having finally run out of ammunition and with no aid in sight, we retreated into Soviet territory in the evening on 4 December in Year 21, enduring humiliation in order to survive." We can conclude that "4" was the right date. The telegram is now stored in the archives of the autonomous region.) The units under Li Du [2621 2629] (formerly Yilan garrison commander and subsequently Jilin self-defense army commander in chief) retreated into Soviet territory near Hulin in January 1933.

After retreating into Soviet territory, the northeast volunteer army immediately turned over its weapons and equipment to the Soviet authorities in accordance with international practice. Following negotiations between the Nanjing government and the Soviet Union, the latter agreed to let the northeast volunteer army cross Siberia and enter Chinese territory at the Tacheng border checkpoint. It would then be handed over to the Xinjiang government.

After working out this deal with the Soviet authorities, the Nanjing government immediately sent a telegram to the Xinjiang provincial government ordering it to prepare to take over the volunteer forces. Jin Shuren [6855 2885 0088], then chairman of Xinjiang provincial government and superintendent of border defense, appointed Lu Xiaozu [7627 2400 4371], a former secretary general of the provincial government, as Tacheng administrative director and named two attachés, Sun Guohua [1327 0948 5478] (an assistant director at the meteorological observatory) and Han Xun [7281 8113], a former county chief. On 3 January 1933 they were despatched to Tacheng to take charge of the hand-over of the northeast volunteer army. The Nanjing government also ordered Guang Lu [1639 4389], its consul in Zaisang in the Soviet Union, to take part in this operation by facilitating contacts with the Soviet authorities. Concerned that the northeast volunteer army would be hard to control, Jin Shuren only took over the rank-and-file officers and men while keeping senior officers out of Xinjiang. As a result, high-ranking officers like Su Bingwen, Ma Zhanshan, and Wu Delin [0702 1795 2651] (commander of the 2d Infantry Regiment under Su Bingwen) had no choice but to leave their forces and return to China by boat via Europe. Instead, Zheng Runcheng, commander of the 9th Brigade of the 2d Infantry Regiment, became acting regimental commander and led the forces into Xinjiang along with Su Guo, chief of staff of the 2d Infantry Regiment.

On 14 February 1933, the northeast volunteer army left its camp at Tuomusike [phonetic] and boarded a train on the Trans-Siberian Railway. It got off at the Ayagusi [phonetic] station and headed for Tacheng on foot. In the evening on 25 February, the first batch of northeast volunteers entered Tacheng under the command of Zhao

Zhuxun [6392 2885 8113] to the warm welcome of the local people of all nationalities.

They were followed by a steady stream of other volunteers entering Xinjiang through the Tacheng checkpoint. They stayed at Tacheng briefly for rest and reorganization before moving in groups onto Urumqi and other sites where troops were stationed. The first batch led by Zheng Runcheng arrived in Urumqi on 27 March. (Footnote 2: According to the telegram sent by Lu Xiaozu, Tacheng administrative director, to Jin Shuren on 26 February 1933, "The first batch of 500 men arrived at Tacheng in the evening on 25th." Most of the more recent accounts suggest that the first batch of northeast volunteers entered Xinjiang in the latter half of March 1933, a discrepancy probably caused by confusing the time they arrived in Urumqi with the time they entered Xinjiang.) Reception points had been set up along the way between Tacheng and Urumqi to provide lodging and food for the volunteers. Some locals even prepared sumptuous meals for the soldiers on their own initiative. People of all nationalities welcomed the volunteers most warmly. Many shops put up posters offering special treatments for them. Both officers and men were deeply moved.

How many northeast volunteers entered Xinjiang from the Soviet Union? Widely divergent figures were given by a host of historical accounts. Most put the number at more than 30,000, a report submitted on 17 August 1945 to Wu Zhongxin [0702 1813 0207], then chairman of the provincial government, by the social department of Xinjiang Province said, "Anti-Japanese northeast volunteer forces retreated into Xinjiang on order from the central government in Years 22 and 23 of the Republic. A count conducted at the time yielded more than 20,000 people, including officers, men, and their families." On 4 December 1945, a telegram from the finance department of Xinjiang provincial government to the Executive Yuan of the KMT regime read, "Anti-Japanese northeast forces entered Xinjiang between Year 22 and Year 23 of the Republic after taking a roundabout route on order from the central government. At the time we counted over 20,000 officers, men, and their families." While these two documents were less than detailed, they were reliable since they were based on some kind of "count." Documents currently in the archives of the autonomous region give the sizes of the five batches of northeast volunteers in the regiment under Zheng Runcheng's command who entered Xinjiang as follows: 500, 476, 532, 449, and 457, for a total of 2,414. These numbers should be quite accurate. Unfortunately, we have no way of determining how many people were in the other units of the northeast army which also entered Xinjiang. But one thing is sure, namely that suggestions that 30,000 and 40,000 northeast volunteers entered Xinjiang are less than reliable.

As the anti-Japanese northeast volunteer army headed for Xinjiang by way of the Soviet Union, their plan was to return to the front to fight the Japanese. But the Nanjing government then sent a telegram to the Xinjiang

provincial government ordering it to "settle the northeast volunteers where they are." Because the telegram was not made public for a long time, the volunteers at the time and even a number of researchers after the revolution thought that Sheng Shicai [4141 0013 2088] did not allow them to enter Shahaiguan, a perception that was not in line with historical facts.

The route mapped out by the Nanjing government for the re-entry into China of the volunteer army indicated that the Nanjing government never wanted the volunteers to return to the front of the war of resistance against Japan. For the northeast volunteers who had retreated to the Soviet Union, the shortest and most convenient way to return to the interior would be to go by ship from Vladivostok, which was how the one thousand plus injured volunteers and their families who had retreated into the Soviet Union with Su Bingwen found their way back to China. To cross Siberia and come home by boat via Europe covered a vast distance and was time-consuming, but at least the land and shipping routes were clear. In comparison, the most inconvenient route was to re-enter China through Xinjiang. Tacheng and Gansu are separated by the Gobi Desert stretching thousands of li. Crossing the sparsely populated desert on foot posed enormous difficulties. The Nanjing government picked this route precisely because it wanted the volunteers to settle down in Xinjiang so that they would not "make any more trouble."

In July 1933 the Nanjing government despatched Wang Ziyao [3769 1311 5069], aide-de-camp to Li Du, formerly commander-in-chief of the Jilin self-defense army, to Urumqi by air and issued an order under which all northeast volunteers, officers and men, who had entered Xinjiang would be reorganized as Xinjiang units. With that the hopes of the northeast volunteers that they would return to the anti-Japanese front were completely dashed.

## 2. Major Activities of Northeast Volunteers in Xinjiang

While they were in Xinjiang, the northeast volunteers took part in many local political and military activities, notably the following:

### a. Participated in fighting to defend Urumqi.

The entry of the northeast volunteer army into Xinjiang coincided with the siege of Urumqi by the forces of Ma Shiming [7456 0013 2494], who was under the command of Ma Zhongying [7456 0112 5391], a Gansu warlord. The provincial forces under Jin Shuren received "absolutely no training in peacetime and are utterly useless in battle. Martial discipline have broken down and bad habits are deeply entrenched. The troops are an uneven mix, some old, some strong. They are dressed in rags, so the people of Xinjiang call them a 'beggar army.'" These forces were simply incapable of putting up any resistance to the advancing Ma Zhongying forces. The fall of Urumqi appeared imminent. After the northeast volunteers entered Tacheng, Jin Shuren pasted notices all over town announcing that the Nanjing government had

"sent 15,000 crack troops to Xinjiang by way of Russia equipped with big guns, tanks, and airplanes" in order to calm the people. At the same time, he sent an emergency telegram to Lu Xiaozu ordering the northeast army to rush to the province to save the day. The northeast volunteers arrived in Urumqi, reluctant to participate in the civil war. So the various leaders sent a letter to Ma Shiming tactfully asking him to agree to stop fighting. (Footnote 3: *A History of the Development of the Western Regions by China*, by Ceng Wenwu [258 0795 0710], p 604) Figuring that Urumqi was about to fall any minute, the Ma Shiming forces ignored the diplomatic gesture, giving the volunteer army no choice but to join the battle in defense of the city. The northeast volunteers in Zheng Runcheng's brigade were well-trained regular troops. In no time they defeated the Ma Shiming forces and forced them to raise the siege.

**b. Participated in Xinjiang's 12 April coup d'état.**

On 12 April 1933, Chen Zhong [7115 0022], Tao Mingyue [7118 2494 2887], and Li Xiaotian [2621 4562 1131], known as the "three young Turks" of Xinjiang, staged a coup d'état, largely relying upon the "converted army" headed by Bapinggute [1572 1627 0657 3676] and the northeast volunteer army under the command of Zheng Runcheng.

In the early afternoon on 12 April, the "converted army" launched a surprise attack on the provincial government of Xinjiang. Jin Shuren fled. In the evening on the same day the provincial army unleashed an all-out counteroffensive. Outnumbered, the "converted army" was ready to evacuate Urumqi with the soldiers' families. At this critical juncture the northeast volunteers joined the fighting and instantly turned the military tide. Seeing that the situation was beyond salvage, Jin Shuren fled to Changji on 14 April and published an open telegram in Tacheng on 24 April announcing his decision to give up power.

At a meeting of the provisional maintenance committee in the evening on the day of the coup, Liu Wenlong [0491 2429 7893], director of the department of education, was elected chairman of the provisional provincial government. A decision was made to abolish the supervised office system and set up a provisional military committee headed by Zheng Runcheng, one of the generals of the northeast volunteer army. Zheng Runcheng was still with the volunteer army outside the city and did not attend the meeting. When informed of this decision by someone despatched by the organizers of the meeting, Zheng Runcheng said that the northeast army was only passing through Xinjiang on its way to fight the Japanese and had no interest in involving itself in Xinjiang politics. Only after repeatedly turning down the position did he agree to be the chairman temporarily. When the provisional maintenance committee next met on 14 April, however, Bapinggute, leader of the converted army, proposed that the governor system be retained and that Sheng Shicai be the new governor. Zheng Runcheng, the only person in a position to oppose

the proposal, felt that it was beyond his power to sort out the mess in Xinjiang, on the one hand, and still harbored some unrealistic dreams about Sheng Shicai, a fellow provincial (Sheng Shicai was from Liaoning), on the other. The lack of strong opposition from Zheng Runcheng enabled Sheng Shicai to successfully ascend the throne of governor.

**c. Helped Sheng Shicai destroy miscellaneous political enemies.**

In the summer of 1933, Ma Zhongying again marched into Xinjiang from Gansu with his troops. After capturing Hami and three other towns (Mulei, Jitai, and Fuyuan), he was practically knocking on the door of Fukang, barely 60 kilometers from the provincial capital of Urumqi. Sheng Shicai put himself at the head of the northeast volunteers and the converted army under the command of Zheng Runcheng and Bapinggute, respectively, and arrived at Fukang to meet the approaching enemy head on. In mid-June, fierce fighting broke out between the two armies at Zineiquan 40 kilometers to the east of Fukang. At the beginning the Ma Zhongying forces had the edge and Sheng Shicai was almost taken prisoner. Fortunately, valiant fighting by the northeast volunteers and the converted army turned the situation around. In July the same year, with Ma Zhongying closing in on Urumqi from the south, the northeast volunteers led by divisional commander Liu Wankui [0491 8001 7608] again took on the enemy. Liu Wankui was seriously wounded in the battle of Shuixigou and died. The office of the governor of Xinjiang organized a solemn memorial service for Liu Wankui and promoted him to lieutenant general in the army posthumously.

To attack Urumqi jointly with Ma Zhongying, Zhang Peiyuan [1728 1014 0337], who headed the unit in Ili responsible for putting soldiers to work to develop wasteland and concurrently commander of the 8th Division of Xinjiang, sent Yang Zhengzhong [2799 2973 0022], a regimental commander, to advance to the east in the winter of 1933. He promptly captured Jinghe and Wusu and was closing in on Suilai (now Manasi). Liu Bin [0491 2430], chairman of the joint chiefs of staff at the governor's office and a general in the northeast volunteer army, led troops to take on the enemy. He wiped out Yang Zhengzhong at one fell swoop at Sandahezi, thus ending the vulnerability of the province to enemy attack from both front and rear.

With the siege of Urumqi broken, the northeast army along with the converted army and other troops from the province again headed south in March 1934 in pursuit of Ma Zhongying. Meanwhile Liu Bin crossed Tianshan from Ili and directly made for the key town of Akesu in southern Xinjiang. After capturing Akesu in late March 1934, Liu Bin linked up with the main forces and continued their southerly push. By then Ma Zhongying's forces were in utter disarray and he fled to the Soviet Union on 14 July. Deputy divisional commander Ma Hushan [7456 5706 1472], who was married to Ma Zhongying's older sister, took over the remnants of his

forces and retreated to Hetian where he pledged allegiance to the provincial government. Only then was Sheng Shicai able to consolidate his rule over the whole province.

### 3. Sheng Shicai Broke Up, Massacred Northeast Volunteers in Xinjiang

In the summer of 1934, his military campaign against Ma Zhongying largely over, Sheng Shicai set up the "Xinjiang army reorganization committee" as part of the governor's office. Under the guidance of Soviet advisers, the committee proceeded to reorganize all the armed forces in the province. As a result of this exercise, the northeast volunteer army was disbanded as a separate unit, its officers and men being incorporated into newly organized military units and stationed all over the province under the watchful eye of Sheng Shicai himself. The training unit stationed in Urumqi consisted mostly of northeast volunteers who had entered Xinjiang but was headed by Wang Hongzao [3076 7703 5679], an in-law of Sheng Shicai's. Northeast volunteers also made up a majority of the officers and men in the unit in Ili responsible for wasteland development and at Ili garrison headquarters as well. Yet the officer in charge of the wasteland development unit and commander of the Ili garrison headquarters was Qiu Zongjun [6726 1350 3182], Sheng Shicai's father-in-law. A number of senior and middle-ranking officers in the northeast volunteer army who had received formal military education were stripped of military power and sent to military schools as instructors.

After regaining control over Xinjiang in 1944, the KMT carried out yet another round of reorganization in the northeast volunteer army in Xinjiang, redistributing them among the 2d Cavalry Division, the 12th Cavalry Division, the 1st Division, and the 128th Division. Divisional commanders and some regimental commanders were appointed separately by KMT military authorities. Most former members of the northeast volunteer army, both officers and men, found themselves excluded.

After the victory of the war of resistance against Japan, the KMT regime sent 1,500 volunteer officers and men and their families back to their native villages. Because of transportation breakdowns and poor organization, some personnel ended up wandering about destitute in places like Lanzhou and Xian, while others returned to a northeast plagued by fighting, could not find any means of livelihood there, and were forced to return to Xinjiang.

Although the northeast volunteer army did much to bring about and consolidate the regime of Sheng Shicai after it entered Xinjiang, many of its officers and men were massacred brutally by him. There are varying accounts of many of the issues involved. Here we will look at some of them.

In the past, a number of people have written that the northeast volunteer army "fled on the eve" of a battle

with Ma Zhongying at Dabancheng and secretly corresponded with the enemy. This, it was said, left Sheng Shicai no choice but to have some northeast volunteers arrested and killed. But was this really what happened?

According to trial records at the time, Sheng Shicai had Zheng Runcheng, Su Guo, Yang Yaojun [2799 5069 6874], Ying Zhanbin [2019 0594 2430], Xu Guoguang [1776 0948 0342], and Li Zhi [2621 1807] arrested in the evening on 20 November 1933. The next day Yan Lian [7346 1670] (formerly commander of the 20th Regiment of the Jilin save-the-nation army and leader of the corps of bodyguards of the provincial government at the time) was arrested, so were Gao Lingyun [7559 0407 0061], chief of staff of the 4th Brigade of the Jilin save-the-nation army, and Wang Xiaozhi [3769 1321 0037], a former commander of the 673d Regiment of the 26th Division of the Jilin self-defense army and, after coming to Xinjiang, chief of staff of the Ili unit in charge of putting soldiers to work to open up wasteland, on 9 May 1934. The charges cooked up by Sheng Shicai against them were: Plotting to overthrow the existing regime and murder the governor. According to Sheng Shicai, this was the elaborate plot they had hatched: Externally, Ma Zhongying and Zhang Peiyuan were to attack Urumqi simultaneously from two sides and, internally, the northeast army and the converted army were to join forces and stage an uprising, with the bodyguards of the governor's mansion led by Yan Lian trying to assassinate Sheng Shicai. Liu Wenlong [0491 2429 7893] was allegedly the mastermind of this plot, yet Sheng Shicai did not have him arrested, merely putting him under house arrest. (Footnote 4: See archives of the autonomous region, under Police Chapter 1-2-103)

Let us now go back to the defeat at Dabancheng and try to set the record straight and pinpoint responsibility. After their arrest, leaders of the northeast volunteer army, including Zheng Runcheng, were "unanimous in their emphasis on Sheng Shicai's errors as a commander, noting that he issued the wrong orders. Not for a second did they admit that they deserted or were engaged in conspiratorial activities." (Footnote 5: "Seven Decades of Turmoil in Xinjiang," by Zhang Dajun [1728 1129 6511], p 3349) Their assertions were consistent with what Jin Guozhen [6855 0948 3791] remembered. Jin Guozhen, who took part in the fighting as deputy commander of the 1st Cavalry Regiment of the mixed brigade under Sheng Shicai's direct command, said, "The day after the assault on Dabancheng, just as we were making headway, we suddenly received an order to withdraw. Taking advantage of the opportunity, over 100 mounted troops from the forces of Ma Zhongying came in hot pursuit of us. Their frontal attack on the provincial forces sent the latter into total disarray. However, when Ma Zhongying's troops saw that the cavalry units of the province were retreating on both flanks, they assumed, wrongly, that they had fallen into an ambush and immediately fled to their base. After retreating a dozen li, Jin Guozhen ran into Sheng Shicai who there and then personally ordered the 1st Cavalry Regiment to

take in the skirmishers and await order to return to Urumqi. Only a little over 100 mounted troops charged head on toward us and, wrongly believing that they had fallen into an ambush, soon withdrew in panic. For these reasons, they could not possibly have inflicted extensive losses on the provincial forces." (Only four soldiers from the 1st Cavalry Regiment were killed in this battle.) Judging from the fact that Sheng Shicai calmly and unhurriedly ordered the 1st Cavalry Regiment to take in the skirmishers and return to Urumqi, not only did Sheng Shicai realize that his forces did not suffer heavy casualties but he also calculated that Ma Zhongying was not about to launch a major offensive. In the same article of recollections, Jin Guozhen also touched upon the real reason why the battle of Dabancheng was lost. Ma Zhongying had written a confidential letter to each of the four generals of the northeast volunteer army—Zheng Runcheng, Guo Yingkui [6753 2019 1145], Ying Zhanbin [2019 0594 2430], and Yang Yaojun, but the messenger was captured by Sheng Shicai's forces. Sheng Shicai got suspicious after reading the letters and immediately ordered a withdrawal. According to Sheng Shicai's aide-de-camp, Zhao Jianfeng [6392 0494 6912], this was the gist of the letters: You are all heroes of the war of resisting the Japanese and saving the nation. To preserve your reputation, you should return to the interior and continue to fight the Japanese, instead of getting involved in local wars in Xinjiang. Since these four confidential letters were never delivered into the hands of Zheng Runcheng and other leaders of the northeast volunteer army, we have no way of determining what their attitude to them would have been. Perhaps this was a ploy by Ma Zhongying to drive a wedge between Sheng Shicai and the northeast volunteers. Perhaps this was precisely the pretext Sheng Shicai had prayed for. (Footnote 6: "The True Story of the Several Battles I Took Part In," by Jin Guozhen, in "Selected Readings in Xinjiang Literature and History," Volume 14, Xinjiang Renmin Chubanshe, 1983)

What then made Sheng Shicai murder the leaders of the northeast volunteer army so brutally? To establish separatist rule in Xinjiang, Sheng Shicai must first gain control over the armed forces in the province. There were three armies in Xinjiang at the time: the provincial army, the northeast volunteer army, and the converted army. The converted army consisted mostly of veteran soldiers who had taken part in World War I and were opposed to the October Revolution. They had a wealth of combat experience but there were not too many of them, just 2,000 or so. The provincial army was large in size but corrupt, with absolutely no combat capability. Moreover, it was scattered throughout north and south Xinjiang. Then there was the northeast volunteer army. Not only did it have a formidable combat capability, but it also outnumbered the other two armies. To subjugate Xinjiang, Sheng Shicai must first control the northeast volunteer army. To control the northeast volunteer army, he must get rid of its leaders.

Sheng Shicai might make use of the leaders of the northeast army but there always came a point when he

had to have them killed. As soon as he entered Ili, Liu Bin, a former commander of the 5th Army of the northeast people save-the-nation army, was appointed Ili garrison headquarters commander by Sheng Shicai. After leading troops into south Xinjiang, he was named Kashi garrison headquarters commander by Sheng Shicai in June 1934. In Xinjiang, Ili and Kashi are the most important strategic points after Urumqi. In 1937 Sheng Shicai stripped Liu Bin of all his military positions and put him in charge of gold mines. Soon afterwards he accused him of "plotting a rebellion" and had him murdered along with Ha Yuliang [0761 3768 5328] (acting chief of staff at the headquarters of the Jilin self-defense army) and Niu Yuting [6873 3768 1656], (deputy commander of the regiment of officers of the 2d Brigade under the northeast people save-the-nation army). Jiang Youfen [5592 2589 5358], who succeeded Liu Bin as commander of Kashi garrison headquarters, was subsequently killed as well.

When the northeast volunteer army entered Xinjiang, it included a company of military recruits made up of young students. Upon the completion of training in August 1933, the trainees were distributed among the units and were quickly promoted to positions at the brigade and battalion levels, becoming the backbone of the Xinjiang armed forces. And the prime targets of Sheng Shicai's assassination squads. Of the 97 people in the company of military trainees who actually entered Xinjiang, 44 were massacred by Sheng Shicai. (Footnote 7: *From Bai Shan and Heilongjiang to the Foot of Tianshan*, by Gu Menglin [6253 1125 2651], see *Selected Readings in Urumqi Literature and History*, Volume 5, Xinjiang Qingnian Chubanshe, 1983) Cui Rongchang [1508 2837 2490], a platoon leader in the company of recruits, held a number of positions after entering Xinjiang, including leader of the military officers' school and commander of Kashi garrison headquarters. In March 1941 he was arrested by Sheng Shicai for involvement in the "conspiratorial clique" case. By October the same year as many as 124 people had been arrested in connection with the Cui Rongchang case, most of them young military officers from the northeast volunteer army. (Footnote 8: "Statistical Table on Convicts in the Cui Rongchang Case," Xinjiang Provincial Public Security Management Department, 18 October 1941) After their arrest, some were executed in secret, while others died from a variety of cruel tortures. There were few survivors.

There has never been a formal count of the number of officers and men from the northeast volunteer army killed by Sheng Shicai. Most of the figures now available are exaggerations. For instance, Zhang Fengyi [1728 7685 0308], a northeast volunteer army leader who entered Xinjiang in the latter period, said, "After the northeast volunteer army entered Xinjiang, only 5,000 men were killed in fighting with Ma Zhongying or died from diseases or old age. In contrast, over 10,000 of them were arrested and massacred by Sheng Shicai in the past decade." (Footnote 9: "The Experiences of the

**Northeast Anti-Japanese Army In the Decade After It Entered Xinjiang,"** by Zhang Fengyi, in *Selected Readings in Urumqi Literature and History*, Volume 23, Xinjiang Renmin Chubanshe, 1991) After Sheng Shicai was transferred to Chongqing as minister of agriculture and forestry in 1944, the chief justice of the local court in Urumqi, Liu E [0491 6948], and others made the following charge before the special tribunal sent to Xinjiang by the military commission of the KMT specifically to sort out long-standing criminal cases: "The most tragic case involved the 20,000 people and more in the northeast army... For over 10 years they were brutally murdered until they were almost completely wiped out. A mere 10 officers or so and fewer than 1,000 old and weak soldiers survived." (Footnote 10: *Seven Decades of Turmoil in Xinjiang*, pp 6035-6036) Let us analyze this matter.

After the reorganization of 1934, Xinjiang's armed forces were reduced to 12,000 people. Of the 18 units above the regimental level, the three garrison commands of Hami, Ashan (now Aletai), and Yan Qi, the 9th Cavalry Regiment, the 7th Infantry Division, and other units were all composed either mainly or entirely of minority officers and men. The 6th Cavalry Regiment, on the other hand, resulted from the reorganization of the converted army. Only in nine units did northeast volunteers who had entered Xinjiang make up a majority. Based on these data, officers and men from the northeast volunteer army who had entered Xinjiang should make up about half or so of the reorganized Xinjiang armed forces, that is, about 6,000 people.

After entering Xinjiang, many of the volunteers switched to other fields one after another. In the 1930's and 1940's, you could find a former northeast volunteer in just about every organization, institution, or enterprise in Xinjiang. Of the 97 people in the third squadron of the company of military trainees, 60 people were assigned to various military units while 37 switched to other sectors: banks, transportation, and posts and telecommunications. If over 38 percent of the people in the military training company, the cradle of the leadership of the armed forces, switched to other fields, the job-change rate among other officers and men could not have been lower. Using this percentage as a base, the number of northeast volunteers who left the forces for other occupations must have been at least 8,000. Also, of the 60 military trainees who remained in the military after the military training company was abolished, 39, or 65 percent, were massacred by Sheng Shicai. In contrast, of the 37 who switched to local work, five people, or 13.5 percent, died in the hands of Sheng Shicai. This shows that one's chances of being murdered by Sheng Shicai were far smaller if one switched to local work than if one stayed in the military. Moreover, there were other volunteers who for a variety of reasons voluntarily left the units in the thousands in search of other means of livelihood.

According to these calculations, of the northeast volunteers who entered Xinjiang, about 5,000 were killed on

the battlefield or died because of illness. About 5,000 remained in the units and close to 10,000 changed jobs or branched out on their own. At most 2,000 to 3,000 were murdered by Sheng Shicai. Needless to say, these computations were not accurate, but we can say with certainty they are closer to facts than the assertions that Sheng Shicai murdered over 10,000 volunteers or that he practically wiped out 20,000 volunteers. As far as the northeast volunteers were concerned, the bottom line for Sheng Shicai was to control and make use of them, not eliminate them. Specifically, his overriding policy toward high-ranking officers was to kill them off; some he made use of for a time but in the end even these generals were murdered. In the case of middle-ranking officers, his principal policy was to divide and exploit, supplemented by murder, in order to ensure control. As for low-ranking officers and the rank-and-file, his main objective was exploitation. If all 20,000 northeast volunteers were wiped out, what else could he depend on to continue his rule in Xinjiang?

The main reason Sheng Shicai was able to exploit and divide the northeast volunteer army who entered Xinjiang was the absence of a strong leadership core. The northeast army entered Xinjiang without its high-ranking leaders like Su Bingwen, Ma Zhanshan, and Li Du, in other words, its most prestigious leaders. Zheng Runcheng and others were not in a position to hold together the entire army. Zheng Runcheng was commander of the 9th Regiment of the 2d Infantry Brigade in the northeast people save-the-nation army and later served as acting brigade commander. At the time the army entered Xinjiang, he was both regiment commander and brigade commander. The northeast volunteer army which entered Xinjiang had a surfeit of military officers at the army, division, and regiment levels. (In the Jilin self-defense army and save-the-nation army, for instance, Xing Zhanqing [0438 0594 3237] was divisional commander; Yang Yaojun, zhonglu commander-in-chief; Ha Yuliang, headquarters chief of staff; Yang Bingsen [0761 3768 5328], artillery commander; and Liu Wankui [0491 8001 7608], Guo Yingkui, Ying Zhanbin, Dan Chunlin [0830 2504 7207], Li Zhi [2621 1807], Xu Guoguang [1776 0948 0342], and Yu Deyi [0060 1795 0001], brigade commanders. Why did Su Bingwen and others put Zheng Runcheng instead of somebody else in charge of the army? Mainly because the 2d Infantry Brigade used to be the northeast army's regular forces with a strong capability which still boasted two fairly intact regiments consisting of 2,500 officers and men even as it was withdrawing from the northeast. As for other generals, some did not make their way into the Soviet Union until later and therefore could not have joined the greater part of the forces as they retreated into Xinjiang, while others had become commanders without a following. (One example was Liu Bin [0491 2430], commander of the 5th Army of the northeast save-the-nation army.) Zheng Runcheng was not qualified to command the entire army in terms of experience, prestige, or ability. That he was made chairman of the provisional military committee after the 12 April coup

shows that all quarters in Xinjiang had high hopes in the northeast volunteer army. But it turned out that Zheng Runcheng did not live up to the important job and was quickly stripped of his military power by Sheng Shicai.

The volunteer army was ridden with factions, each having nothing to do with the others, even back when it was in the northeast. This was a major reason why it lost the war of resistance against the Japanese. Although it was nominally under the unified command of Zheng Runcheng after entering Xinjiang, in reality it was its same old factious self. For instance, Li Du put divisional commander Xing Zhanqing in charge of the Jilin self-defense army. Because the army was stationed at two places in Xinjiang, namely Ili and Urumqi, which made centralized command difficult, Xing Zhanqing (stationed at Ili) decided that Yang Yaojun should be responsible for the volunteers from Jilin now stationed at Urumqi. Needless to say, this undermined the unified command of Zheng Runcheng. Subsequently Sheng Shicai dared to have Zheng Runcheng and others arrested and murdered precisely because he perceived, correctly this particular weakness on the part of the army of volunteers and had gone to great lengths to divide and rule beforehand. After Zheng Runcheng and other leaders of the northeast volunteer army were arrested, Sheng Shicai immediately promoted a number of middle-ranking officers in the same army, thereby readily consolidating his grip on the northeast army of volunteers.

Moreover, there was a host of officers, motivated by self-interests, who threw in their lot with Sheng Shicai and turned around to sell out and murder their former comrades-in-arms. This is another reason why the northeast army disintegrated. Typical of these officers were Li Pulin [2621 3302 7207] and Li Yingqi [2621 5391 1142]. An adopted son of Li Du, commander-in-chief of the Jilin self-defense army, Li Pulin was named to important jobs such as chairmanship of the secret tribunal by Sheng Shicai because of his diligence in providing the latter with inside intelligence about the northeast volunteer army. He had a hand in a majority of the several "plotting to rebel" cases fabricated by Sheng Shicai and fled with the latter to Taiwan on the eve of liberation. A former major and aide-de-camp in the northeast people save-the-nation army, Li Yingqi zealously offered to serve Sheng Shicai and was quickly promoted to such positions as section chief in the office of the aide-de-camp in the governor's office and head of the office of political instruction. After his appointment as director of the provincial public security management department in 1933, he proceeded to have many people murdered in accordance with Sheng Shicai's wishes. For instance, he took part in cooking up the Cui Rongchang case, whose primary goal was to murder young military officers in the northeast army of volunteers. He also carried out Sheng Shicai's plot to kill Chen Tanqiu [7115 3389 4428] and Mao Zemin [3029 3419 3046]. After the liberation, Li Yingqi was arrested and executed by a firing squad.

#### 4. Some Northeast Volunteers Contributed to Economic Construction and Democratic Revolution in Xinjiang

As a result of the reorganization of 1934, many officers and men from the northeast army of volunteers were demobilized and assigned to all kinds of positions. At the time such people could be found in countless organizations, enterprises, and educational and cultural institutions all over Xinjiang. Because they were fairly well-educated, many became the leaders and backbone of their units. Zhang Mingpan [1728 7686 3879], for instance, who headed the aide-de-camp's office of the northeast save-the-nation army, led demobilized officers and men in an arduous enterprise on the sands of Gobi Desert, building oil refineries and turning out kerosene, gasoline, and lubricating oil. Or take Wang Qixun [3769 7871 8113], a battalion commander in the northeast volunteer army. After leaving the military, he became chairman of the engineering commission in charge of putting up several of the most well-known buildings in Urumqi at the time. In his book, *Xinjiang: The Inside Story*, Xu Lingfeng [1776 7227 7685] described the west building of the governor's mansion, one of the commission's works, as the "best equipped conference hall in the rear in China" and called the "big bank" the "greatest piece of architecture" in Urumqi. In the mid-1930's, many northeast volunteers took part in building the 1,400-kilometer Ili-Urumqi Xingxing gap highway. Completed and opened to traffic in early July 1937, it became one of the key arteries of transportation in the world during the war of resistance against Japan and played a critical role in aiding the war effort. Most of the instructors at the Xinjiang military officers academy were members of the northeast volunteer army who had entered Xinjiang, while many of the political instructors were members of the CPC and CPSU. A good number of the officers and men at the CPC-led recruiting camp were graduates of the academy and went on to become the backbone of the drive to modernize the Chinese military.

Whether they stayed in the military or were demobilized and assigned to the localities, many former members of the northeast volunteer army were staunchly patriotic and steadfastly progressive and participated in the democratic revolution in and peaceful liberation of Xinjiang.

Zhang Fengyi [1728 7685 0308], a former middle-ranking officer in the northeast army, became actively involved in the war of resistance against Japan in the northeast after the September 18 incident. Once in Xinjiang, he held a succession of jobs, including brigade commander, regiment commander, and Kashi garrison commander. After the victory of the war of resistance against Japan, he became a lieutenant general at the northwest field headquarters. On the eve of liberation, he was the province's deputy commander of public security. (Provincial chairman Bao Erhan [0545 1422 3352] was concurrently commander of public security.) To go with the way events were unfolding, General Tao Zhiyue [7118 1492 1471], then commander in chief at provincial garrison headquarters, was preparing to stage

an uprising. Yet he had few troops under his direct control. Both Ma Chengxiang [7456 0701 4382], commander of the 5th Cavalry Army, and Ye Cheng [0673 2052], commander of the 78th Division, were resolutely anti-communist and firmly opposed to rising up in rebellion. Accordingly, the five regiments with close ties to and under the control of General Zhang Fengyi (which essentially were part of the former northeast volunteer army) became the forces Tao Zhiyue and Bao Erhan relied on as they made preparations for an uprising. After the liberation, Zhang Fengyi was chief of staff for the Xinjiang military region and deputy director of the autonomous region's department of heavy industry, among other things, making fresh contributions to Xinjiang's military and economic construction. Luo Zhi [5012 1807], a native of Guangdong, went to the northeast as a child. After the September 18 incident, he joined the anti-Japanese volunteer army. In 1938 he graduated from Xinjiang College and became deeply involved in democratic revolutionary activities and was one of the top leaders of the underground organization "Combat Society." In August 1948 Luo Zhi and four

three-region revolutionary leaders, including Ahemaiti-jiang [7093 0678 6314 2251 3068] and Yisihakebaike [0122 2448 0761 0344 0130 0344] were killed in a plane crash en route to Beijing by way of the Soviet Union to take part in a CPPCC meeting. Zhao Jianfeng served as an aide-de-camp to Sheng Shicai for a while and enjoyed the latter's confidence. Later he became increasingly progressive and did many good deeds for the people of Xinjiang, constantly on the move on behalf of the peaceful liberation of Xinjiang. After liberation, he held a string of positions, including deputy director of the office of the Xinjiang provincial people's government.

After the peaceful liberation of Xinjiang in September 1949, some former northeast volunteers and officers still in the units were reassigned to the PLA while others transferred into the Xinjiang production and construction corps to defend the border and help build up Xinjiang. People of all nationalities will forever cherish the memory of former officers and men from the northeast army who contributed to the economic construction and democratic revolution of Xinjiang.

## Prospects, Disappointments of Taiwan Traders

### Trade Relationship Changes

94CE0279A *Taipei TIEN-HSIA (COMMONWEALTH) in Chinese* No 12, 1 Dec 93 pp 21-31

[Article: "New Triangular Relationship—Deterioration of Taiwan Firms Two Sides of the Strait Advantage"]

**[Text] New Triangular Relationship Emerges In Shanghai, Acer's Neon Sign Adds Luster to the Night on the City's Most Crowded Thoroughfare, Nanjing Road. Near Beijing Airport, Lienhua Electronics—China's largest integrated circuit plant—shares honors with arriving and departing tourists.**

During 1992, the 200 percent growth of the Taiwan information business' investment in the mainland far surpassed its investment in other areas. But investment in Taiwan itself was less than 20 percent.

No longer is the investment in traditional industries like shoes, umbrellas, and brief cases. Even scientific and technical industries on which Taiwan pins its future hopes have rapidly become infected with the mainland craze. Relations between the two sides of the strait have entered a new stage of change from the quantitative to the qualitative.

Separate interests of the scalene triangle made up of Taiwan firms, Taiwan, and the mainland differ.

Is Taiwan firms opening up of the opposite shore more quickly and more deeply just an expansion of Taiwan businesses operating territory or might it put pressure on Taiwan's living space?

At a time when the whole world is advancing along the road of regional economic integration, in the long-range picture that Taiwan economic decision makers portray for getting enterprises to put down firm roots and home and develop and grow elsewhere, science and technology industries are to receive the baton and drive ahead in replacing old industries with new ones.

They are completely confident about Taiwan's scientific and technical industries for good reason. Taiwan's information and electronics industries have truly won a share in the global division of labor system. Major information firms in Europe and the Americas have recently been scrambling to improve their ties with Taiwan manufacturers. This has made Taiwan a world class manufacturing site. Its fixed mount scanners, personal computer mainframes, and its monitoring devices rank first in the world.

Through the transformation of time and space, the real and the bogus may be turned upside down all of a sudden. Were they to fly less than a hour's flight distant from Taiwan to Shenzhen and look at the blending and transformation of the scientific and technical industries

of both side of the Strait, they would certainly revise with extreme vigilance the strong convictions they formerly held.

It is ten past noon, and the narrow Shanchuan Lane in the Shenzhen Special Economic Zone (SEZ) is bustling. Women employees on lunch break are shampooing their hair beside Lutian Street. In the bamboo fence-decorated restaurant, Teng Hung-lin, who hails from Taitung, and who is wearing a pair of black jeans, high top athletic shoes, and a white T-shirt, is eating some spicy Sichuan dandan noodles. He is talking about the monthly output of 200,000 computer mainframes: "My output is now more than everyone's." Laughingly, he said, "On lunar new year's eve, we gave a party for 50 tables full of guests."

It is hard to believe that this factory could be so extraordinarily brave. By comparison with most Taiwan air-conditioned plants, the plant that this Taiwan trader has leased in Shenzhen looks for all the world like an old flour mill. The only thing in the plant's original color cement wall office that makes one think about modern science and technology is the newest NEC script writer color computer. "Our people run back and forth to Taiwan frequently. It is very convenient," Teng says.

"I was the one who got this plant going," Teng Hung-lin acknowledges. The successful experiences that Taiwan's information electronics industry worked out over a period of many years have been moved lock, stock, and barrel to the mainland. They have been combined here with the mainland's copious manpower to produce newer competition.

Taiwan firms have a lock on the source of computer chip components. They control things coming and going. Typically, Teng Hung-lin has also invested in a Taiwan chip designing company. The computer chip sockets that Taiwan entrepreneurs have recently produced, Teng Hung-lin is also developing in his own building in Shenzhen. "I can save two New Taiwan dollars on each one," he says shaking the part he is holding in his hand. In order to meet quality requirements for precision production, Taiwan firms have brought in NT\$2 million robots that accurately bond small parts to the surface of circuit boards. Teng Hung-lin even managed to save this NT\$2 million investment by simply training manual operators, using manpower to counter machines. "Now I depend on those six pair of hands," he said happily.

In the western suburbs of Shanghai, just a one-hour flight north of Shenzhen, is what Chou Cheng-jung forecast in 1959 like Teng Hung-lin. Although one out of every two monitors in the world were made in Taiwan in 1992, "by the end of 1992, Taiwan will be unable to make any monochrome computer monitors." Chou Cheng-jung, who was in charge of Taiwan Ch'uan-nao Electronics' European market, has now shifted his base to Shanghai where he is cooperating with the Shanghai Electron Tube Plant in turning out monitors.

People travel back and forth in a steady stream from south and north in the mainland, exploring avenues for Taiwan's information electronics industry. Not only have power supply devices, monitors, and mainframes gradually become production staples, but a computer software industry, which Taiwan has long wanted to develop vigorously but which has not been successful in Taiwan, is now beginning to be developed on the mainland by the Taiwan information industry using factory-like quantity production methods. Even cooperation on high definition television (HDTV), which is still in the developmental state, is being discussed between Taiwan and the mainland.

#### Transfers Abroad Too Rapid!

Zhou Muchang [0719 1970 2490], director of the Chinese mainland's Ministry of Electronics Computer Research Center, said with a smile: "Between 70 and 80 percent of Taiwan's more than 400 important information concerns are cooperating with the mainland."

This tide has greatly reversed the direction of flow of Taiwan capital and technology. Southeast Asia has been the region in which the information electronics industry has invested heavily. During the previous two or three years, Taiwan had been the largest foreign investor in ASEAN countries such as Malaysia and Thailand, and its investment in electronics-related industries there was most dazzling. During the past year, however, the overall amount of Taiwan's investment in southeast Asia has fallen off sharply. Statistics from the information electronics industry alone provide a strong indication of this. The Southeast Asia fever that flourished for a time has given way to a mainland China fever.

"This is really a cause for concern. The shift abroad is really too fast," said Li Ta-wei [2621 1129 5898] of the Statistical Commission's Market Information Center, who is responsible for keeping track of Taiwan entrepreneurs' investment abroad. Pointing at the figures, he said, "In Southeast Asia, it is only a little more than 20 percent of normal growth, but on the mainland, it has been a growth of several hundred percent."

Even though the mainland is currently unable to compete with Taiwan on relatively high quality products, and although most Taiwan entrepreneurs predict that Taiwan still has a three to five year lead, the mainland's information electronics industry has recently shown itself to be on the rise. During the first half of 1993 alone, mainland information industry exports increased 200 percent over the same period during the previous year. The personal computer internal sales market for the year also caught up with Taiwan's average 350,000 units.

The China mainland general manager of the American Hewlett-Packard Computer Corporation, Cheng Tian-zong [4453 1131 4912], reminded that when looking at a competitor, "you must not always look at his shortcomings; you should look at the way in which he is changing."

#### Entry Into an Entirely New Stage

When traditional industries such as shoe, umbrella, and Christmas decoration industries went ashore on the other side of the Strait one after another, Taiwan said complacently: This is an elimination of industries that is inevitable as the economy escalates. Scientific and technical industries will receive the baton and carrying on the task of pulling up the industrial level. Today, however, even scientific and technical industries can hardly escape catching the mainland craze. This is fully demonstrated by economic and trade relations between the two sides of the Strait entering an entirely new phase of change from quantity and the spurring of qualitative change.

The speed and the number of scientific and technical industries that have surged into the mainland has increased tremendously. This is bound to hurt Taiwan. Once the factories that Taiwan firms rushed to build go into operation, will the large number of scientific and technical enterprises that have a blood relationship with Taiwan and whose mainland personnel are well-versed in production skills expand the operating area of Taiwan enterprises, or will they turn around and put pressure on Taiwan's living space?

Zhang Jichun [1728 1807 5028], who is in charge of economic relations and trade in Shanghai's Taiwan Office, and who studied biochemistry at the Chinese Academy of Sciences, showed that chemistry remains his basic profession when he said, "What is going on is a chemical compounding reaction between both sides of the Strait."

Once a chemical reaction occurs, an entirely new material results. A return to the original state is impossible. Once economic relations and trade between both sides of the Strait have been largely meshed, a new stage will come into being. When they were in Taiwan, each increase in production that Taiwan firms made was a contribution to the country. The interests of the government and enterprises were identical. That time has passed never to return.

Henceforth, economic and trade relations across the Taiwan Strait will no longer be in a straight line between two sides, but a scalene triangle among Taiwan, the mainland, and Taiwan firms, each one of which will use different means to attain its own interests. Taiwan firms must strive to make their own businesses prosper; Taiwan must maintain its own security and open new room for maneuver; and the mainland will be intent on acquiring Taiwan's economic resources and experience while simultaneously moderately extending sovereignty over Taiwan.

In the new triangular relationship, the three parties will explore and experiment in an effort to find ideal long-term and near-term relations.

Looked at solely in terms of the development of scientific and technical industries, Taiwan and the mainland really need each other.

The mainland needs Taiwan because scientists and technicians on the mainland, which is able to launch artificial satellites and nuclear bombs, are truly unfamiliar with large scale microcomputer production and sales. Zhou Muchang, the minister of Electronics Industry admitted that despite having spent a large amount of money on computer technology to build 21 production lines, the Chinese Communists were never able to establish an internationally competitive industrial base. "Taiwan's success is distinctive. China needs to study it, but complete imitation is not possible, because times have changed." Zhou Muchang did not try to hide the Chinese Communists hope of using Taiwan to guide and build its personal computer industry: "Technology is changing too rapidly today. We need time to develop, and the best way is to cooperate with firms abroad like Taiwan's."

However, Taiwan's scientific and technical enterprises must also narrow the distance with the mainland.

#### A Copious Manpower and Technology Market

Hsu Hsiang-sheng [1775 3276 3932], the person responsible for Acer on the mainland who went to Beijing to set up a base in April 1993, affirmed in his office that no one dared underestimate the market potential of the mainland. "If Acer is to become a world class computer firm, it will have to come to the mainland." An ordinary single occupancy room on the eleventh floor of Beijing's Olympic Building is both Hsu Hsiang-sheng's office and bedroom.

An even more important pressure driving Taiwan entrepreneurs toward the mainland is unremitting and more varied competition at home and abroad.

Some of the scientific and technical entrepreneurs arriving in the mainland receive a respect that operators of industries in Taiwan are not accorded. Yingyeda [phonetic], which produces computers and script writer computers has long worked to no avail to recruit personnel in Taiwan to meet its professional needs. "We spent more than NT\$2 million a month on newspaper ads, but we received no more than 10 letters in reply," assistant general manager Lai Chen-hsing [6351 2182 5281] reflected.

Finally, Yingyeda decided to set up a site in Shanghai where it could make use of the manpower supply network that Shanghai's 58 institutions of higher education had set up. Lai Chen-hsing also remembered having spent a little more than NT\$60 to join the Shanghai Talent Recruitment Association and finding 25 people at one time. Today, Yingyeda is using more than 200 technical personnel in Shanghai, each one of which has a computer to write computer, telephone, and electronic dictionary software just like the software factories in Japan.

When Yingyeda built its plant, the chairman of the board, Yeh Kuo-hui [0673 0948 6540] personally planned the plant site. He went to Shanghai at least three times monthly to superintend. In addition, since Shanghai listed construction of the Yingyeda plant as a key construction project, it was given full local support in the same way as the subway and the Yangpu Bridge. A seven story factory building was completed within 11 months.

The concrete gains of Taiwan firms from the use of the mainland may be easily quantified, but the effect on Taiwan as a whole is difficult to estimate.

Li Ta-wei of the Statistical Council warns: "The mainland's finest production technology is now in the hands of Taiwan firms." Under guidance and direction from Taiwan firms, the mainland's information electronics industry climate is bound to improve over time. He said, "Taiwan depends on an industrial network. If it moves out of Taiwan, Taiwan's advantage will not last for long."

Drawn by Taiwan firms, this network is gradually moving into the mainland. Not only has production of all computer components such as power supplies and keyboard been moved to the mainland, but Taiwan's parts importing and supply firms have also began vigorous development of the mainland market. The mainland's first goal is to hold fast to Taiwan firms that land there. Now that Philips and China Kinescope have decided to set up plants on the mainland, the impetus of the mainland's computer monitor industry has recently become greater and greater.

#### Complete Transplant of Industrial System

Some firms have adopted the methods of Japan's Toyota Automobile Corporation, completely moving to the mainland upstream and downstream firms. Gyokusei Computer, which owes its rise to mainframe production, has begun to build a complete system in Shenzhen, Guangdong Province. Not only is Gyokusei's mainframe plant in Shenzhen, but it is also producing keyboards and computer cases there. Gyokusei has also moved to the mainland, where it is planning to set up another base, the surface bonding equipment for even the script writer computers that it is making an all out effort to put into production in Taiwan. Remembering when Gyokusei had nearly 1,000 employees in Taiwan a year ago, one observer said, "Gyokusei used to be one of the world's first three mainframe plants, but today it has fewer than 300 people remaining in Taiwan."

Not only has Taiwan changed the industrial environment for supporting the mainland, but western nations, which formerly strictly controlled the export of technology to the mainland, have become increasingly liberal recently. In addition, Hong Kong and Chinese firms supply each others needs. The channels through which the mainland obtains components are becoming wider and wider. Saige [phonetic] Electronics Equipment Plaza is a virtual reproduction of Taipei's Kuanghua Market.

One businessman said descriptively, "Once a foreign chip is marketed, Saige has it a week afterward." A Taiwan computer mainframe plant official who set up a factory in Guangdong admitted frankly, "I go through Hong Kong to buy parts. I do not have to have anything to do with Taiwan."

#### Island Taiwan's Challenge

The biggest sticking point for Taiwan in the current Taiwan trader construction of a network that bridges the Taiwan Strait is how to make a distinction that does not hurt Taiwan firms while still protecting Taiwan.

In early November, Minister of Economic Affairs, Chiang Ping-k'un [3068 0014 0981], held a breakfast discussion with Taiwan industrialists. On the advice of industrial concerns, Chiang Ping-k'un agreed to change the way of listing mainland investment projects from those that are government-approved to those that are not government-approved. After discussion within the government, although the Ministry of Economic Affairs countermanded this order, the Deputy Minister of Economic Affairs, Yang Shih-chien [2799 0013 4873], agreed that the government would gradually decontrol the importation of mainland semi-manufactures.

This government announcement meant that in the long contest for economic dominance, the mainland seemed to have pushed another step forward. It was only two weeks before the controversy that Liu Zhentao [0491 7201 3447], director of the Economic Bureau of the China mainland-Taiwan Office emphasized that getting Taiwan to decontrol the importation of mainland semi-manufactures was an economic and trade breakthrough that the Chinese Communists were currently striving to obtain. He acknowledged frankly that this was a Chinese Communist riposte to the "retain roots in Taiwan" that Taiwan shouts to the skies. "I feel that "retain roots in Taiwan" is a Taiwan ploy against the mainland," Liu Zhentao said. No matter whether retain roots in Taiwan is really a ploy, or whether it is just a slogan, Taiwan firms were successful in getting the importation of mainland semi-manufactures decontrolled.

At a time when the whole world is calling for regional economies, the most difficult challenge to island Taiwan may be how to be a good regional partner, and how to be able genuinely to protect its own supreme national interests while being in the regional maelstrom.

#### 'Tough' Counterparts on Mainland

94CE0279B Taipei TIEN-HSIA /COMMONWEALTH/  
in Chinese No 12, 1 Dec 93 p 32, 34

[Article by Ch'en Hsiao-hsien (7115 0208 6343): "Red Guard Sells Taiwan Computers"]

[Text] He is combative after the test of a decade of the Cultural Revolution.

He has gone from cooperation to a split with Acer.

He is typical of the astute and tough partners and adversaries that Taiwan firms have encountered on the mainland.

When thinking about the red guards who went through the severe test of 10 years of turmoil on the China mainland, one conjures up an image of burly men possessed of indomitable spirit and a booming voice.

On first sight, Li Feng [7812 6912] turned out to be of slight build and extraordinarily quiet, particularly so in the noisy lobby of a hotel in Shenzhen.

It was impossible to know that as soon as he opened his mouth, this impression would be completely reversed. He was really a very incisive person!

"If it hadn't been for my advertising, Acer would never have sold anything (in China)." He spoke like a machine gun, and not just rapidly but forcefully as well. "You must use strong words in advertising to Chinese. Acer's ads were not strong enough." He held back nothing when he talked. "Acer is too gentle. Stan Shih and the others are all too nice."

"Computer ads in China are not for customers to read; they are written for the bosses who do not understand computers who may happen to read them." He began to give pointers. "There is no use talking all the time about Acer's history or concepts. No one wants to read that." Waving his hands, he said, "My ads said that Acer is best in six ways. What their own ads did not say, I said for them."

Standing there, he was really complex. In the eyes of people in Shenzhen, Li Feng is a mystery. For Acer Computer, which longs to open up the China mainland market, Li Feng was a strong partner deserving of respect, but today he is a difficult to control local bully. To other Taiwan and overseas information entrepreneurs who want to open the mainland door, Li Feng provides a key on which they pin their hopes.

Li Feng is a 39 year-old Hunanese. "No one knows where he sprang from." In talking about his background, one Shenzhen entrepreneur shook his head and said, "My friend who plays cards with him has never seen him lose."

Another person who sells computers on the mainland seems to have heard a lot about Li Feng, but still really not enough. He said that Li Feng is the name on his name card, but his identity cards bears the name Zhai Lifeng [5049 7812 6912]. However, "this identity card was also bought, so just what his real name is, I have no way of knowing." In making the rounds of Shenzhen, Li Feng draws a lot of attention. His car is an imported Lincoln Continental. Sometimes he drives it himself rather than use a chauffeur.

A year ago, Li Feng, who had been operating in Shenzhen for seven years, established the Liji Corporation, which specialized in the sale of Acer computers. Li Feng was very candid in saying why he had taken the name

Liji for his corporation. "It was to cooperate with Acer." Within one year, he found 25 salesmen on the China mainland, and he claimed to have spent a total of \$200,000 on advertising.

In order to help Liji expand the mainland market rapidly, Acer provided all possible help.

For this reason, all the computers in the Liji office were provided by Acer, and Acer helped set up all the office's E-mail networks. Liji's financial and management systems were all set up with the help of Acer. One person well versed on the inside story could not help saying that "Their (Liji's) whole enterprise is a duplicate of Acer."

In 1992, Acer unexpectedly learned that Liji had privately sold copies of Acer computers. After contacting a Hong Kong lawyer unsuccessfully, Acer decided to sever relations with Liji. An Acer mainland market official said, "On anything having to do with the intangible asset of a trademark, Acer's principle is very clear: absolutely no compromise." In April 1993, Acer formally established a branch corporation on the mainland.

#### Makes Own Way in the World Using Taiwan Connections

While I was talking with Li Feng in the coffee shop of a Shenzhen hotel, his cellular telephone suddenly rang. After hanging up the telephone, Li Feng said that Acer had sent a fax demanding that Liji immediately settle outstanding debts. Hardening his voice, he responded, "Acer says it will not sell machines to me. Who cares? I can buy them from Hong Kong, Japan, or the United States."

No matter how matters develop between Liji and Acer, Li Feng has decided to continue to use Taiwan computer contacts to make his own way in the world. "Now I am cooperating with Taiwan," Li Feng said. All the products that Liji needs in order to have a brand of its own—mainframes, monitors, chassis, or script computers, etc.—will be provided by Taiwan concerns. In order to sell low cost computers for home use, he went to the Beijing branch of the American Yingdaier [phonetic] Company, which he told that he wanted 1 million 80386 computer chips each month.

From his contacts with Taiwan entrepreneurs, Li Feng is quick to apply what he learns. After hearing of the Taiwan computer industry's business problems in recent years, he said with a laugh, "I only sell. I don't manufacture. Manufacturing is too tough."

Because Li Ming's car had been sent to the airport to meet an official from the Ministry of Electronics in Beijing, he walked back to his office. Asked as he walked along the streets of Shenzhen whether Shenzhen was a so-called risk taker's paradise, he nodded agreement. To succeed in Shenzhen takes three things: "First is outside assistance. This is the facade. Second is contacts. This is

the real strength. Third is assistants. Because of the many opportunities, it is impossible to get around to all of them."

"How will your Taiwan overcome our mainland? Forty years ago, the Kuomintang lost out to the Communist Party," he said as he walked along. "Nowadays, there is no talk about politics; just about making money. The likes of Acer do not love money. I really have trouble understanding it." Except for the mainland, this is a world that operates using laws and concepts. In the mainland, by contrast, a fist is sometimes more useful than a lawyer.

Li Feng is just the kind of astute and tough partner and adversary that a typical Taiwan trader meets on the mainland.

#### Interests 'Fit Together Nicely'

94CE0279C Taipei TIEN-HSIA [COMMONWEALTH] in Chinese No 12, 1 Dec 93 pp 37-38, 41-42, and 49-51

[Article by Chuang Su-yu (5445 4790 3768): "Taiwan Firms Shape a New Mainland. Increasing Joys and Temptations

[Text] Deng Xiaoping's policy of "without reform and opening to the outside world, China will come to a dead end" is being implemented by Taiwan firms. In 1992, the China mainland's imports and exports totaled more than \$1.6 trillion. The value of its exports surpassed that of Taiwan for the first time, 3 percent of it coming from Taiwan firms. The longing of Taiwan firms for growth fits together nicely with the mainland's battle to escape from poverty.

Like it or not, the travel to the mainland of Taiwanese to work is an unstoppable trend. For the next generation, daddy will not only no longer return home for supper, he will spend the whole year on the mainland.

Suffering Taiwan cadres are leading young and industrious mainland workers. They are using their accumulated management experience and the newest plant equipment to give a new performance of Taiwan's bare-handed rise of 20 years ago on the opposite shore.

The time is autumn 1993. The place is the China mainland. The main performers are a group of Taiwan traders who are building factories anew on the China mainland. In this vast land that requires risk taking to overcome difficulties, and that has been described as the great west, the longing of Taiwan traders for growth nicely coincides with the mainland battle to shed poverty.

By comparison with the stagnation in Taiwan, several locations on the coast of mainland China are filled with a strong will to grow, and foreign visitors arrive in an endless flow. Every day Shanghai's Hilton Hotel is overbooked by 80 or 90 guests. An Min [1344 3046], the director of the Taiwan, Hong Kong, and Macao Office of

the Ministry of Foreign Trade and Economic Cooperation [MOFTEC] says extremely ambitiously: "China's economy must mesh with the world's." (On the China mainland, Taiwan traders may meet many patriotic, strongly ambitious, and outstanding officials like An Min.) An Min notes with pleasure that China's imports and exports during 1992 totaled \$1.6 trillion for tenth place in the world, suddenly surpassing Taiwan by more than \$10 billion. (During 1992, the value of exports exceeded that of Taiwan for the first time.)

An Min said that in 1992 Taiwan firms contributed 3 percent of the China mainland's total imports and exports. A Hong Kong scholar believes it was more than that.

The succession of performances of Taiwan firms in pursuit of growth on the mainland have directly or indirectly hastened the rapid growth of the China mainland economy.

The rapid increase in Taiwan firms' investment in the mainland has had an impact on Taiwan's industry that has spread as well from manufacturing to the financial and advertising businesses...

At 9 o'clock at night, in a brightly lighted factory five hours away from Shenzhen by car—the Chongde Shoe Factory located in the Lianhuashan Industrial Zone of Dongguan in Guangdong Province (a joint venture of Taiwan's Chunt'ai Shoe Factory and a Japanese Shoe Factory)—800 female workers' hands and feet are busy machine-sewing shoes. No one speaks. The only sound is the cicada-like chirping of the sewing machines. Looking at the factory, which sparkles like crystal, the factory's new general manager Lin Wu-luan, soliloquizes: "They laugh saying I am crazy because I want them to increase their output 20 percent. Work that can be completed in 8 hours, they want to take 10 hours to do." He and four other cadres from Taiwan live in the factory area. They make the factory their home, and they take turns on patrol. (Suffering cadres and hardworking female employees: Isn't this a portrait of Taiwan 20 years ago?)

#### Scene 2: The Sorrows and Joys of Pioneers

At Kunshan City, a two-hour automobile trip from Shanghai, fields of yellow-flowered rape and winding ditches appear everywhere. This is a fine river and lake region south of the Chang Jiang. This tract of rape is awaiting the arrival of a foreign trader to develop it for a factory site. Fuch'ang Textiles, Liuho Machinery, Nanhsin Electronics, and Amalgamated Enterprises from Taiwan have all established plants here.

The 42 year-old Cheng Pao-t'ang from Jumbo Industries in Taiwan is in charge of nine cadres who are in process of building a factory that will produce 1.5 million bicycles per year (to reach in a single action a scale that took 21 years in Taiwan).

Today is Sunday. It is also the national anniversary of the Republic of China. Very early in the morning, Cheng

Pao-t'ang listens to a radio broadcast from Taiwan, but the signal is jammed. But work is more important than anything else, so the holiday-less Cheng went on patrol at the plant site very early to solve problems as they occurred. At 5:30 every morning, he climbs to the top of a hill alone. At 7:30, he goes to work, and at 10:00 or 11:00 o'clock at night, he is on plant patrol.

Because of the press of work, Cheng Pao-t'ang does not think of his aged parents or his three growing daughters back in Tachia Town in Taiwan. He says, "We started from scratch here. It is a mission and a challenge." Nevertheless, looking out into the twilight outside the office window, he cannot help but frequently wipe away tears from behind his spectacles because he is unable to look after his parents and daughters. Returning to the dormitory, he eats dinner with 10 cadres sent from Taiwan. In order to welcome the guests, he has specially bought Dazha crabs from Yangcheng Lake in Kunshan for dinner. One of the group, a 30-some year old cadre remembers the famous remark of chairman of the board Liu Chin-piao: "Males have to be ruthless to succeed." The homesickness of the group is assuaged only by this sentence of the boss.

The leftover contestants apartments in Beijing's Olympic Village have now become high quality apartments leased to foreign firms.

The 10 cadres in Beijing live a collective bachelor life here. "The general managers of a Chongqing plant and a Chengdu plant, which are under construction, also live here. They go to work and come back from work together, and after eating the evening meal, their sole common topic is the amounts completed.

Around 8 o'clock on this night, general manager Chang Sheng-chi receives a telephone call from Tianjin for the purchase of some instant noodles. Since they began to go into production at the beginning of the year, one after another of the wholesalers in north China have lined up, cash in hand, to buy them. They have come from Tianjin, Jinan, and even as far away as Harbin. "The figures are what keep the five of us going," says Chang Sheng-chi, who comes from Tainan, but who already speaks with a Beijing accent after living in Beijing for a year.

#### Scene 3. Exploring the North

It takes about two hours to go from Beijing to Tianjin via the newly opened express highway.

The port of Tanggu in the Tanggu district of Tianjin on Bohai Bay is a coal exporting port. The smell of coal is everywhere, and yellow saline soil is everywhere too, just waiting for someone to reclaim it.

A Taiwan trader in Tanggu claims to have inside information that direct flights will begin between Tianjin and Taipei in May 1994. The Tianjin Municipal Government has already drawn up beautiful long-range plans for

the yellow soil that include a financial zone, an industrial zone, and economic relations and trade zone.

The Tianjin Huana International Vacation Village Company is developing a golf course in the planned financial district. All around is yellow mud. It is difficult to envision this areas as a bustling financial services area, and it is also very difficult to envision a golf course in a financial services area. A Taiwan trader in Tianjin said incredulously, "Tianjin freezes in winter. How can grass be grown?" Pointing to a barren tract beside him, The Huana general manager, Lin T'ien-chueh, who comes from Taiwan, said happily, "We open next year. Pretty soon, three regiments of people's armed police, 3,000 men in each regiment, will be working three shifts a day on this construction site. Within a short time, the dust will be flying as huge forces battle night and day like tanks in a decisive battle." The most dangerous places are the safest places and vice versa. The more chaotic a place, the easier to see opportunities for discussions.

On the mainland, some Taiwan firms like Huana dare to take risks to overcome difficulties. They are taking the route of armed forces and people's armed police. Lin T'ien-chueh has asked the director of the Chinese Communist Hainan Island Office, Li Da-xiao to take charge of the work. His units are also a part of the Chinese Communist military's benefit protection group. Li Da-xiao says in an aside: "Taiwan is part of China. When Taiwan compatriots come here to work, they are returning to the motherland to engage in construction. They are developing strength for the motherland."

#### Starting Life Over Again

Lin I-liang, the Tianjin general manager of Unity, which is located not far distant, who came to Tianjin just half a year ago, saw his life go from simplicity to complexity. Formerly, his life centered around Tainan County and Tainan City. His life was extremely simple. All he had to do was tend to his work, and all was well.

Now, he has to make sure that mainland staff and workers do not smoke or spit in the plant, and he has to remove refuse from the plant area to turn it into a garden with a wayside pavilion. (Unity in Tianjin is a joint venture with the old flour mill owned by the Tianjin Sugar Refinery.) Lin I-liang hopes to turn into magic the mess that exists in the plant area's refuse-filled out of the way corners.

When he was a manager in Tainan, he often spent his spare time drinking tea and chewing the rag with several good friends. Now, on his day off, he plays golf with ranking Tianjin cadres to talk about matters. "They really treat me very well. We are on very close terms," says Lin I-liang from whose mouth Taiwan dialect formerly issued, but from which the tongue-twisting Beijing dialect now comes.

At dusk, Lin I-liang carries back to his hotel for the evening meal some cold food that the plant cook made for lunch. "When I went to work for Unity at age 26, I

gave my all for the job. Now that I have to give my all on the mainland at age 50, it's really strenuous." He sighed saying, "Since I signed on to this ship, I have to figure out a way to make it run."

Like it or not, people traveling from Taiwan to the mainland to work is an irresistible trend. For the next generation, daddy will no longer just not come home for dinner, but he will spend the whole year on the mainland. The understanding of the next generation that is educated in Taiwan will begin to be confused. The textbooks may call the Chinese Communists communist bandits, but daddy will have gone to do business with the communist bandits.

Actually, economics knows no national boundaries. Nor can firms who seek continuous growth easily put their country ahead of profits. The amount of Taiwan firms' investment in the mainland during 1992 was second only to their investment in Hong Kong and Macao. It was greater than their investment in either the United States or Japan.

An Min says that as of now, Taiwan firms have formally invested in a nominal 12,000 different projects on the mainland totaling nearly \$11 billion. If the unofficial projects are added in (investment by Taiwan firms registered under foreign firm names), the number is 20,000.

The statement of a Beijing official has the typical Chinese great nation haughty tone. He said, "Forty years ago Taiwan carried away a lot of gold from China. It is only right that it should return to the motherland to make a contribution now." As he continued to speak, he happily revealed a secret. He recently signed contacts with two big Taiwan firms.

#### The Ever-Increasing Investment Craze

The speed and intensity of Taiwan firms investment in the mainland is like the spread of lotuses on the Kaohsiung River. Overnight the lotuses choke the river creating a peril.

Zhang Zhiqun, director of the Taiwan Affairs Office in the Shanghai Municipal People's Government pointed out that since Deng Xiaoping's travels in south China during 1992, Taiwan firms' investment in Shanghai has increased enormously. During 1992 alone their investment was greater than the total for the previous 10 years, and investment during the first half of 1993 has been greater than for all of 1992.

The scale of investment is also becoming greater and greater. An Min, who remembers figures very clearly, said that not only has the level of technology risen, but the average per project investment has also increased from \$900,000 prior to 1991 to \$1 million today. When Taiwan firms invest in the mainland, they bring the

quintessence of concentrated experiences to the mainland. The scale of their plants is absolutely several times what it is in Taiwan, and the equipment is also new and better.

Take the Yuyuan Shoe Company, a mainland joint venture of Taiwan's P'ao-cheng Shoe Company and a Hong Kong firm, which set up the Yuyuan Shoe Factory in Dongguan before the June 4th incident of 1989. The plant area, which is located on a river, occupies an entire street and has 20,000 staff members and workers. It is more imposing than Taiwan's nearly 10,000 employee China Steel Plant. What was "Taiwan's best" a decade ago, has moved here. Pao-cheng's plant at Zhongshan in Guangdong is even larger with 50,000 staff members and workers. Its Zhuhai plant has 5,000 staff members and workers. Yuyuan Shoe Enterprises is now listed on the Hong Kong stock market.

Within just two years, Unity Enterprises has also set up seven bases on the mainland. A cadre in a mainland general merchandise and textiles group explained why investment in the mainland is becoming greater and greater and deeper and deeper: "In the beginning, investors were fearful. After the situation became somewhat clearer, investment became greater and greater," she said.

We know when the enemy does not know. The mainland authorities know all about Taiwan firms' investments. Taiwan's Straits Exchange Foundation made 100 speeches during the first half of 1993 in which it called upon firms to augment the registration of Taiwan firms' investment in the mainland, but no more than 12,000 projects were registered.

At the end of October, Taiwan's Ministry of Economic Affairs announced the astounding results of a survey. Citing the results of a Ministry of Economic Affairs "survey report of the operating intentions of manufacturing industries," for 5,000 manufacturing firms, it said that during the past three years 64 percent of the domestic concerns that invested had invested in mainland China.

According to central bank statistics, during the past four years, more than \$10 billion has flowed out of Taiwan to the mainland, but only slightly more than \$6 billion has flowed from the mainland to Taiwan. This is an adverse balance of more than \$5 billion.

The frequency of Taiwan firms' economic relations and trade between the two sides of the Taiwan Straits has tightly bound Taiwan's and the mainland's economic contacts into a destiny community. Hong Kong Chinese University researcher, Chien I-yuan, has found that Taiwan showed a \$9.48 billion favorable balance of trade for 1992. Its favorable balance of trade with Hong Kong amounted to \$13.6 billion. Without its favorable balance of trade with Hong Kong, Taiwan would show an unfavorable balance of \$4.1 billion.

Unless one goes to China, it is difficult to understand why Taiwan firms want to go so far from home to invest in the mainland. What one sees on the mainland is everyone focusing on money. There is a general determination to battle their way out of poverty. From north to south, everywhere large tracts of land beckon. Any time of the day one can see crowded, impoverished masses telling people they need work.

A mainland survey shows 20 million staff members and workers, and their families, have a monthly income of only 50 yuan (about NT\$200). They live in poverty.

Many state-owned enterprises cannot continue operation. Every unit must think of ways to create income in order to sustain itself. Some state-owned units have also allowed people to leave their posts (leave their jobs temporarily) to get a fresh start. One Shanghai intellectual said that a Shanghai textile mill has cut half of its staff and workers. Even research units like the Shanghai Social Sciences Institute have let go one fourth of their staff members and workers.

Boundless land and unlimited manpower is what Taiwan does not have, and these are also powerful attractions for Taiwan traders to invest in the mainland.

Following the travels of Deng Xiaoping in south China in 1992, the China mainland clearly announced that reform and opening to the outside world would continue unchanged for 100 years. This more powerfully attracted Taiwan traders to go to the mainland. At the same time, Taiwan was endlessly quarreling over political rights issues; no clear-cut and concrete economic policy was in sight; and no fresh political climate or quality of life was provided.

Roaming Mainland China north and south in a strong search for growth opportunities has taken deep root in the minds of Taiwan traders. While Taiwan was marking time in place, many Taiwan traders regarded opening up new territory on the mainland as an experience and a challenge.

#### Risk Taker's Paradise

The China mainland is also a risk taker's paradise. People can come here to try out new brands. Unity, whose "Chef Kang's" Instant Noodles have the greatest brand name recognition on the mainland, does not produce instant noodles in Taiwan. On Taiwan, Unity is a food giant, but on the mainland everyone can begin to compete from a zero starting point.

On the matter of profits and losses, a conclusion is very difficult. In some cases, losses have mounted, but others say they recovered their principle within three years. In most cases, however, more and more investment and more and more expansion is required. Some firms have expanded southward. An example is "Chef Kang," which started out in Tianjin and Jinan, and which is now looking for a plant site in Guangdong. Some have

expanded from the seacoast inland. An example is Chun-t'ai Shoe Industries, which expanded from Dongguan and Qingdao to Chengdu. Unity Enterprises has cast its net everywhere, east and west, north and south.

Just as enterprises must grow, people must also have a sense of accomplishment. "Taiwan has a lot more brilliant people than the mainland, but I can realize my dream here," said Lin T'ien-chueh, a Taiwan trader in Tianjin from Taiwan's Lien-t'ai Gongguan. "A person always hopes to leave behind something that will not be easily forgotten." Lin T'ien-chueh's feelings are typical of Taiwan traders.

Taiwan traders appeals to Taiwan traders is another reason for the snowballing increase in the number of Taiwan traders investing in the mainland. At the present time, Tianjin has 1,200 Taiwan firms. Lin T'ien-chueh has steadily acquainted Taiwan traders with investment in Tianjin. Lin T'ien-chueh said that Ch'eng-chou Electronics, T'ien-sheng Ying-chia Radio Telephone, Jou-Ch'ing Facial Tissue, and T'ai-chung Precision Machines all have Tianjin investment plans.

Investment also has a mass psychology aspect: "A large group of Taiwan traders, Japanese, and Koreans are aboard an airplane. If the Taiwan traders do not come, the mainland will develop without them," said Ch'en Te-hsing, chairman of the board of Fuch'ang Textiles, which is well-known for the production of high quality ready-made clothing, as he sits in Shanghai's old Mian-jiang Hotel eating Dazha crabs while listening to Strauss piano music. This also explains why Taiwan traders are flocking to the mainland.

Ch'en Te-hsing, who was introduced by a professional colleague who invested in Fuzhou early, recently began a cooperative venture with the Shanghai Jinshan Petrochemical Plant for the production of ready made clothing. He went into business with it because his professional colleague's cooperation with it had been happy.

If a business does not move ahead it moves backward. Businessmen find marking time in place very difficult to bear. The deputy manager of Unity Enterprises in Beijing, Lin Fang-i, said that "Business must continue to go on. They should not come here because they cannot succeed elsewhere. They must come to make their business grow." Standing at the Unity Industries plant, which is beginning to rise on the salt lands, the place seems familiar to him. It is because the heads of the Tainan group come from the saline lands of Beimen Village in Tainan County.

#### The Hope of Setting Up Shop

The lure of the mainland market of 1.2 billion people is hard to resist. Furthermore, although mainland per capita income is low, 980 million people on the mainland have annual incomes of \$7,000 or more. "I would be happy doing business with just 50 million people," one Taiwan trader said.

"The interesting thing about the mainland is that one cannot look at it in terms of Taiwan's experience. All the finest things in the world occur here," said Sung T'ieh-min, the chairman of the board of Taiwan Aomei and of China Aomei. What he means by the Taiwan experience is step-by-step development. On the mainland, the gap between the poor and the rich is wide, the land is vast, the population is large, and it is both extremely poor and extremely rich all at the same time.

The mainland's internal and external sales market holds boundless charm, but management problems are numerous.

If one went to the mainland in 1989 (before the 4 June Incident), and then went back four years later, even though the mainland's basic problems (population, and education) still remained, the speed with which several locations in coastal areas are prospering would astound one. The Shanghai subway, which was started later than Taipei's, had trains running on a section in less than a year.

One can see everywhere on the China mainland the expression of Deng Xiaoping's statement that "without reform and opening to the outside world, China faces a dead end."

This clear-cut policy is being put into effect by Taiwan traders.

One can see Taiwan products everywhere on the mainland. Above Beijing railroad station, Wei-ch'uan Food Products' large yellow balloons frequently sway in the air. On signs at bus stops along straight and long eastern Changan Avenue, Unity Instant Noodles also proclaim their good taste. Beside the airport, a Lien-hua Electronics Corporation sign, which declares itself to be China's Largest Integrated Circuit Plant shares its glory with tourists coming and going. On Shanghai's most crowded street, Nanjing Road East, Acer Computer's neon sign adds brilliance to the night scene.

Until relations between both sides of the strait are clarified, propelled by profit, Taiwan firms will dare to go the limit. Many people question whether firms interests are the same as the country's interests. Many worries are cropping up...

#### Do Firms Have No Motherland?

"If things go on this way, Taiwan will be hollowed out," said Wu T'u, the manager of the Hong Kong branch of South China Bank with extreme concern. Like other Taiwan banks, South China Bank went to Hong Kong to handle the letters of hypothecation of Taiwan firms that went to the mainland. The Hong Kong branch, which opened for business only in September, brought in 1,300 customers within a month. Wu T'u has grounds for being worried.

He said that in Shenzhen alone there are more than 1,000 Taiwan firms, and nearly 1,000 in Dongguan. "A

small area has so many Taiwan firms, and China is so big..." Hong Kong Chinese University researcher Chien I-yuan conducted an analysis in terms of economic theory that shows how Taiwan's economy may be sucked dry.

Chien I-yuan said that national income is the mark of economic strength, and that national income is the sum total of consumption, civilian investment, government expenditures and exports minus imports. The reduced investment in Taiwan may produce a domino effect. If employment opportunities decrease and consumption decreases along with it, and if government revenues decrease, and if there is an outflow of capital, in particular, public finance will become increasingly distressed. "Unless Taiwan reinvigorates its economy, Taiwan will really be sucked dry, and the economy will be done for." Looking at the Wanchai sea front in Hong Kong, Chien I-yuan could not help sighing, "Should Wang Yung-ch'ing [3769 3057 1987] go to the mainland, Taiwan will be really dry."

Many Taiwan firms are not that pessimistic. They feel that the money will return to Taiwan. The roots remain in Taiwan.

A Hong Kong financier does not feel this way. His analysis is that the China mainland is formidable. So many Taiwan firms go to the mainland, a small number of them failing. But how will the steady expansion and the deepening investment of Taiwan firms in the mainland turn? The mainland began by providing concessions in coastal areas to attract foreign firms, and now it is providing concessions inland. Taiwan firms cannot stand such deadly temptation. "Taiwan firms themselves know very well what they should do, but they do not do it. If they return to Taiwan, they cannot survive," this financier pointed out.

Chien I-yuan's analysis is that Taiwan firms entered the China mainland because they were "attracted from the outside and pushed from the inside." By attracted from the outside he means the Chinese mainland's large land area, cheap labor, and policy of openness. By pushed from the inside he means Taiwan's insufficient land and manpower, an inefficient administrative system, and deterioration of the social order. One after another, Taiwan firms took the course of seeking a second youth on the mainland. The taking away of capital has already resulted in a capital shortage in Taiwan, which delays the upgrading of Taiwan's industry.

#### Domino Effect

One can already see some evidence of the impact on Taiwan of the departure of Taiwan firms.

Without manufacturing industries, there can be no service businesses.

One Taiwan financier pointed out that with the departure of Taiwan firms, finance and banking shrivels more and more.

Formerly, finance and banking grew at a 2 to 3 percent rate. With the departure of Taiwan firms today and the increase in new banks, local banks find it increasingly difficult to operate. Consequently, they have begun to pressure the government. Banks want to enter the stock market.

The departure of Taiwan firms has also produced a marked slump in the advertising business. A person from Associated Advertising said that in order to invest in the mainland, it is very easy for Taiwan firms to cut their Taiwan advertising budgets, because by cutting their advertising budget by NT\$30 million, they can invest in a plant on the mainland.

When Taiwan firms invest in the mainland, human talent is also replaced. One Taiwan trader noted that in the future when local mainlanders are able to take over in Taiwan firms' mainland plants, Taiwan cadres will be replaced. This will mean a substitution of human talent.

More frightening is the clash between businessmen's interests and the national interest.

Chang Jung-fang [1728 2837 0023] of the China Economics Institute pointed out that Taiwan's present mainland economic relations and trade policy is the public policy about which there has been the most controversy and the least consensus for the past more than 40 years.

Both sides of the Straits conceal the benefit from their frequent economic and trade contacts.

However, because of the Chinese Communist's strong political goals whereby administration is legalized rule of men, not only is Taiwan's political sovereignty threatened, but economically though "Taiwan traders may benefit for a short time, they will not necessarily benefit over a long period," said one observer.

Chang Jung-Fang noted that under the one-country two-systems policy goal, the Chinese Communists are actively employing economic and trade methods, and the intensification of economic and trade relations between the two sides of the Straits to attain the goal of unification. Once Taiwan's economic chip and advantage continues to erode, Taiwan's security coefficient will inevitably decline.

#### Who Bears Responsibility?

In a report, Chang Jung-Fang said that a Chinese Communist internal document said explicitly that "our trade with Taiwan is for the purpose of promoting economic contacts between the mainland and Taiwan to unite industrial and commercial circles in Taiwan to create conditions for the unification of the motherland." This report pointed out that the Chinese Communist's present method is to hope to combine with Taiwan traders, to use the people to pressure officials, and to use businessmen to encircle the government, and to use Taiwan businessmen's expectations that the three opens

[the opening of postal, trade, and navigational ties between Taiwan and Mainland China] will lower costs as a motivation for forcing Taiwan to accept a one China principle. This is tantamount to businessmen transferring external costs to the backs of 20 million people in order to benefit themselves (when costs occur for which they themselves are not required to bear responsibility).

In reality, Chinese Communist activities inside Taiwan have not relaxed with advances in relations between the two sides of the Straits. They have only changed from an effort to take the island in one big gulp to nibbling away. The China mainland has never abandoned Taiwan. In Beijing An Min said, today there is no talk of force against Taiwan, but overall one may say that we are duty-bound to defend the territory of the country! Some people believe optimistically that Taiwan traders may spread Taiwan's experiences on the mainland, or use economic strength to transform the mainland peacefully.

The fact is that the longer Taiwan traders stay there, the more uneasy they become. In a society that depends on the rule of men, commerce has no guarantees. Taiwan traders who have just arrived on the mainland, particularly in north China, feel that high ranking characters are very friendly and are on very good terms with them. However, the longer they stay in the south, the more disappointed they become. In Guangdong Province, for example, although they sign agreements to lease plant buildings for 10 years, they are forced to move in less than four. In addition, after several years, the price of land for which an agreement has been signed may be raised and more rent collected. PLA units may drive vehicles into the plant at any time before the New Year to ask for goods free of charge. When a Taiwan trader is killed on the mainland, the Chinese Communists "may brazenly refuse to provide particulars of the case," one Taiwan trader complained.

Even though Taiwan traders in various places have tried to organize Taiwan trader associations, the Chinese Communist's Taiwan office either wanted to take part, or refused approval. One Taiwan trader said the Taiwan Office "only approved lateral, but not vertical ties" among Taiwan traders in all jurisdictions. People who have had no contacts with the Communists find it difficult to understand the experiences that the Chinese Communists have accumulated during the past half century, or the number of stages in united front work. One high ranking official in united front work directed against Taiwan said that the Chinese Communist's united front tactic throughout has been, first, to make friends to win confidence, and then do "work."

#### No Distinction Between Politics and Economics

A Japanese commentator who visited a finance and economics official in Taiwan said that Taiwan has always maintained the inseparability of politics and economics, but as the Chinese Communist economy has begun to become strong in recent years, its political attitude has begun to harden. It began with the nuclear

testing in Xinjiang... Actually, Chinese Communist officials plan to dovetail economically with the world, but they do not want to dovetail ideologically with the world.

In Beijing during October, signs about bringing the Olympic Games were still up, and the express highway from the airport to downtown Beijing, which was completed more than a year ago, was built to obtain the right to sponsor the Olympic Games in 2000. Finally, when the opportunity was lost because of the human rights issue, people in Beijing were infuriated. An Min said angrily, "Today's world is not a fair world. The Olympic Games standards are the white man's standards." By comparison with the mainland, Taipei's ideological standards are closer to the world standards.

Every time they return to Taipei, many Taiwan traders feel much more relaxed as soon as they step from the airplane, because they can breathe a free atmosphere. If you stand back a little to look at Taiwan, you see that it has some valuable things: its atmosphere is becoming increasingly free; it better respects human rights; and it has greater freedom of the press.

One problem is that ever since the lifting of martial law, Taiwan has stagnated for a very long time. This applies to economic reform, to political clean-up, to National Assembly efficiency, and to the quality of life.

One Taiwan trader in Hong Kong suggested that the Taiwan government should wake up to the present state of affairs. It should talk less and do more. National Assembly efficiency, in particular, should be improved greatly... Taiwan needs more self-examination and action.

If it is to retain Taiwan firms, Taiwan has to provide an environment that permits the rapid growth of enterprises, particularly for the countless medium and small enterprises. It must permit the people to live reasonable and tranquil lives.

#### Unexpected Problems, Hidden Costs

94CE0279D *Taipei TIEN-HSIA (COMMONWEALTH)* in Chinese No 12, 1 Dec 93 pp 52-53

[Article by Zhuang Su-yu (5445 4790 3768): "Three Big Problems Taiwan Traders Face on the Mainland: Public Order, Management, and Hidden Costs"]

[Text] The speed and intensity with which Taiwan traders have invested in the mainland has increased manifold, and the scale is also becoming greater and greater. What are the greatest operating difficulties faced by countless Taiwan traders speaking the same language and of the same race, but who have a different system than the mainland?

### Public Order

Every Taiwan trader on the mainland has his own story to tell. In addition to the operating difficulties they face, their persons and their property are most frequently threatened.

When Taiwan traders, who dislike and try to avoid poor public order in Taiwan, leave home to go to the mainland, the public problems they face there are even worse. The China mainland has a two-track society. Not only is there a wide gap between the rich and the poor there, but the gap in the standard of living between the two sides of the Straits is even greater. Furthermore, some Taiwan traders spend too freely on the mainland. Their automobile and their clothing are too ostentatious, and their haughty behavior even more provokes scoundrels.

The farther south one goes in China, the worse public order becomes. In Baoan County, where Shenzhen is located, in particular, Taiwan traders' plants are frequently robbed or extorted by hooligans. On payday, workers are also frequently robbed. Many Taiwan traders like to keep anti-riot rifles, gas pistols, stun batons, and knives or daggers in their factories, beside their beds, or in their automobiles. Wu Sheng-shun, the director of the Shenzhen Taiwan Traders' Association, is now organizing a peace preservation team in Buji Town. Local foreign merchants have put up money to protect themselves.

An underworld has emerged on the mainland. On 2 October, a 48 man gang headed by the local underworld leader "Feizaiqiang" attacked and killed three Taiwan traders. One of the Taiwan traders was stabbed 19 times on the highway. These three traders were heads of the local "Treasure Island Amusement City." This atrocity resulted less than one week after the opening because the entrance fee was too expensive (2,500 yuan—the equivalent of NT\$9,000—for an hour of karaoke), and because of haughty behavior.

One local Taiwan trader said that the backers of Treasure Island Entertainment City were a group of Taiwan shoe firms. This Taiwan trader also said that "Feizaiqiang" had gone to Taiwan where he had been wined and dined by these shoe firms. Because these shoe firms were also his mainland karaoke partners, this Taiwan trader asked that Taiwan traders on the mainland stick to running good businesses, because the entertainment business inevitably became connected with the underworld and sex. "If this continues," he said, "it can only make relations between the two sides of the Straits more and more tense."

In order to protect themselves, some Taiwan traders have no choice but to improve their contacts with the military and the people's armed police. They forge links with mainland military and with intelligence and public order units. One observer asked with a sigh why one chooses such a hard way to make money.

One Taiwan trader said that on no account should one believe a mainland employee. They are really infuriating. They can only do one thing at a time, and they are fond of eating but averse to work. Do not put them in charge, and do not let them do any purchasing, because they are so incredibly poor they will cheat you blind.

After 40 years of separation, people's thinking, value concepts, and working spirit are very different on the two sides of the Straits. The attitude of the above Taiwan trader, for example, is the typical attitude of a Taiwan trader toward mainland employees. In adhering to China's distinctive brand of socialism, Deng Xiaoping stresses that without reform and opening to the outside world, China will face only a dead end. In accordance with this principle, large numbers of foreign traders have been brought into the country. However, an eating out of a large common pot psychology persists among employees who expect the same benefits no matter their performance.

From top to bottom, the Chinese Communists believe that Taiwan's success during the past 40 years is attributable to "Chiang Kai-shek's movement of large quantities of gold, so now Taiwan naturally should make a contribution to the motherland." Very few realize that Taiwan's success is due to making an all-out effort, hard work, and frugality.

A Taiwan trader in Kunshan, Suzhou said that he has spent a large amount of time explaining that Taiwan's success is attributable to hard work and frugality. A Taiwan trader in Shanghai said that mainland people are rather short-sighted. They are rather impetuous. They want to reach the heights in a single step.

Because of the difference in thinking, many Taiwan traders spend a lot of time on education and training. They generally feel that mainland vocational education, working spirit, and job education are inferior to Taiwan's. Consequently, they spend a great deal of time on education, training and transplanting the business culture of the parent corporation in Taiwan. Factories are filled with posters on the five C's (checking, cleanliness, collating, and consolidating). "The number of Taiwan cadres is small, so who will influence whom? Work here requires stamina and fortitude," said Ch'en Sen-yen, deputy manager of China Chieh-an-t'e [phonetic].

### Hidden Costs

Land and manpower are the major elements attracting Taiwan trader investment. The problem is, they are not necessarily cheap. Behind the scenes lurk numerous hidden costs.

Some Taiwan traders describe these hidden costs as "a hidden man in the mirror" who may jump out at you at any time.

The mainland is essentially a country ruled by men rather than by laws; consequently, good relations with all sorts of administrative personnel and ranking cadres is

very important. One Taiwan trader in north China said that he has spent a lot of time and money on public relations. One must have good public relations with high cadres, their families, and even their chauffeurs. The salty land where he was located had no telephone wires, but thanks to his good public relations efforts, telephone lines were connected.

Very many things on the mainland over which one has no control constitute an even greater hidden cost. A chauffeur in Beijing said that there are no standards for many things on the mainland. "Someone may say something may be done, so even if it may not be done, it may still be done; or he may say it may be done, so even if it may not be done, it may still be done." One Taiwan trader said that on the mainland many things cannot be done on time, and having a contract makes no difference. Also, "if someone says he has a contact who can get things done, he probably does not have a contact; if he says he has no contact, he probably does have a contact." Contracts signed with the Chinese Communist government are not necessarily valid. The farther south one goes in China, the earlier Taiwan traders invested there, and the earlier such problems surface. In October, for example, a Taiwan trader in Shenzhen was suddenly informed that his previously signed rental lease was invalid and that he would have to pay more rent. Great changes occur that one cannot predict.

#### Complaints From One Trader

94CE0279E *Taipei TIEN-HSIA [COMMONWEALTH] in Chinese* No 12, 1 Dec 93 pp 54-55, 60

[Article: "A Taiwan Traders' Complaint: Is It Hard For a Person To Do Business Elsewhere?"]

[Text] Everyone says the mainland is good: There is plenty of manpower, cheap land, and a vast market; it is a good place for Taiwan traders to continue to grow and make money.

Is this true? What do Taiwan traders who have invested in the mainland say?

Cheng Pao-t'ang [6774 1405 1016] (General Manager, China Giant)

#### This Is No Return Home

It is very hard going here. Very hard going. People who haven't come to the mainland do not appreciate just how hard going it is here. Here, you cannot look at the mainland with a Taiwan outlook. Doing things here with a Taiwan point of view does not work.

But if you want to come here to complain, then don't come here. This is because the system that has existed on the mainland for the past 40 years has bred a large common pot mentality in which everyone expects the same benefits no matter his or her work. Different environments have bred different value concepts. One cannot say that theirs are wrong. Since they are people, and people's natures are different, there are no rights and

wrongs about cultural matters. But standards should be improved. For example, people over here do not do things on time and they do not keep promises. They should be trained to do things on time and to keep promises, and they should pay attention to sanitation.

Mainland employees follow instructions, but their thinking and outlook is different. You have to spend a lot of time explaining things to them.

I came here in August 1992, and we are still building a factory. I open my eyes at 5:30 every morning and climb to the top of a hill alone. At 7:00 o'clock I eat breakfast, and at 7:30 I go to the office. I work until 7:00 p.m. Then I return to my dormitory to eat dinner. At 9:00 or 10:00 o'clock at night, I often return to the plant area on patrol.

Although I am only a junior middle school graduate, I have always believed that a person should have a desire to learn. After graduating, I worked in the underworld, and as a pharmacist in a clinic. I was 24 years old before I entered Jumbo where I worked as head of the model car manufacturing department, head of the warehouse receiving department, head of the issuing department, and head of the painting department. I also served as head of the on-site manufacturing section, in general affairs, and in procurement, and on up to the manager of the materials department.

#### Both a Challenge and a Mission

When the company asked me to become the Giant general manager in China, I wrestled with the matter for several months, finally deciding to come. I did not want to let the board of directors down after the many years they had invested in me. It was also an opportunity for me to move upward in the company and to expand my horizons. So I came to the mainland to give my all. It became my second youth.

At first, in the quiet the night, I frequently wept thinking about my family. I felt very sad that my children were so small, but I could not be with them to help them grow up. I had three small children studying in middle school and primary school. It was the period of their schooling. When I was at home, they often asked me questions. Whenever they saw something, they asked about it. Now I was unable to perform my duty as head of the family.

My father lost a leg in an automobile accident, and my mother has diabetes. In order for me to come to the mainland, I asked my younger brother to resign from his job in Taipei and move back to Ta-chia to look after our two parents.

Coming here takes physical strength and stamina. One has to work hard. When I return to Taiwan for 10 days every 3 months, I am sure to help the children polish their bicycles.

I thought about sending the children over here for an education, but in Taiwan, the savior of the people is Chiang Kai-shek. On the mainland, it is Mao Zedong... I

often explain to the children what daddy's thinking is, and why I want to go to the mainland. When I first came here, I was very happy at returning to Taiwan each time, but now it is agonizing to return, because there is so much to be looked after here. The employees here are ignorant about bicycles. They have to be looked after and taught.

I am very sad at heart at coming here, because coming here is no returning home, and because my tour of duty is open-ended. Coming here is a challenge and a mission.

**Anonymous Taiwan Trader: Everything Is a Swindle**

When you operate a factory on the mainland, very many people collect money under very many guises. Someone may suddenly come to collect a cleaning fee. Never mind the reason given, if they want to collect it, they collect it. Here fees for public order are also levied by the head, and the Customs also frequently makes things difficult for Taiwan traders. They like to cause trouble for no reason at all, suddenly issuing fines of tens of thousands of yuan. During one Mid-autumn Festival, I spent 15,000 yuan on dinner parties and gift giving. They often say that we are the most stingy, but since we are not engaged in smuggling, why should we give dinner parties? There are very many bogus joint ventures here that are actually sole proprietorships. When paying employees their salaries, you have to turn over Hong Kong dollars to the joint venture unit first; then, they pay the employees in renminbi, benefitting from the difference in the exchange rate.

Here, management is the biggest headache. The workers here stonewall each other and are fond of quarrelling. This is very hard to deal with. Communism rules here. Using democratic methods to operate is impossible. One has to use forceful means. During my first year, I used Taiwan's humane management methods, which failed miserably. The following year, I changed. I used dictatorial management. I changed to arbitrary management.

Here I found everything is a swindle. I have yet to meet a good person. There is no way to defend yourself against it. When we first set up the factory, they helped with

everything, and I felt they were very good. But after two or three years, things are not the same.

When I was in Taiwan, I did not take medicine for three years, but since coming here, I take medicine every day, and every two or three days, I have to have a shot.

Criminals are beginning to appear here. Ranking cadres can also earn money easily.

One ranking cadre runs a gambling parlor. One has seven automobiles, two of them Rolls Royces.

Once I bought a generator. When it was delivered, I wanted to try it out to see whether it would generate electricity. But the other party would not let me try it out. I insisted. Several days later, he had a criminal come to kill me. I barricaded the door and had someone mediate before the matter was resolved.

[passage omitted]

**Taiwan Trader Suicide Image**

Taiwan traders here must also engage in self-criticism. Some Taiwan traders are fond of indulging themselves. They go out karaoke singing; they go wenching; and they keep women. This causes bad feelings among the local people. Sooner or later, this will make for tense relations between the two sides of the Straits.

In addition, some Taiwan traders engage in cut-throat competition. They engage in price slashing with each other, and some factories do not train their own personnel. Instead, they try to hollow out each other.

Very many Taiwan traders who come here that do not make money in a year or two turn to smuggling. Well-behaved Taiwan traders are hurt by these Taiwan traders that have a bad image. Over here, one positively should not travel by bus. Two or three people may board a bus with knives to steal money. If you are a little slow in giving it to them, they may stab you. During the New Year when workers return home, robberies frequently occur. The place is simply lawless and godless, one swindle after another.

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**DATE FILMED**

28 APR 1994